Golden Minerals Co
Form DEF 14A
April 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material under §240.14a-12

Golden Minerals Company
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
(5)	Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

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350 Indiana Street, Suite 800

Golden, Colorado 80401

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held May 22, 2014

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Golden Minerals Company will be held at the Courtyard by Marriott Denver West/Golden, 14700 W. 6th Avenue Frontage Road, Golden, CO 80401 on Thursday, May 22, 2014 at 9:00 a.m., Denver time, for the following purposes:

1. To elect eight (8) directors to hold office until the 2015 annual meeting of stockholders or until their successors are elected;

2. To ratify the selection of EKS&H, LLLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2014;

3. To vote to approve amendments to the Company s 2009 Equity Incentive Plan; and

4. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof.

Our board of directors has fixed the close of business on March 24, 2014 as the record date for the determination of stockholders entitled to notice of, and to vote at, the annual meeting or any adjournments or postponements thereof.

The Proxy Statement, proxy card, and Annual Report to Stockholders, including financial statements for the fiscal year ended December 31, 2013, are available at www.proxyvote.com.

April 8, 2014

By order of the Board of Directors,

Deborah J. Friedman
Corporate Secretary

TO ASSURE YOUR REPRESENTATION AT THE ANNUAL MEETING OF STOCKHOLDERS, PLEASE SIGN, DATE, AND RETURN YOUR PROXY CARD OR SUBMIT YOUR PROXY AND/OR VOTING INSTRUCTIONS BY TELEPHONE OR THROUGH THE INTERNET SO THAT A QUORUM MAY BE REPRESENTED AT THE MEETING. STOCKHOLDERS WHO ATTEND THE MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON IF THEY SO DESIRE.

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GOLDEN MINERALS COMPANY

350 Indiana Street, Suite 800

Golden, Colorado 80401

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

May 22, 2014

This Proxy Statement is furnished to the stockholders of Golden Minerals Company (Golden Minerals, the Company, or we) in connection with the solicitation of proxies by the board of directors of Golden Minerals to be voted at the annual meeting of stockholders on May 22, 2014, or at any postponements or adjournments of the annual meeting. Our annual meeting is being held for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. The Proxy Statement, proxy card and Annual Report to Stockholders, including financial statements for the fiscal year ended December 31, 2013, were made available to stockholders on or about April 8, 2014.

Pursuant to rules adopted by the Securities and Exchange Commission (SEC), Golden Minerals has elected to provide access to its proxy materials via the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our stockholders, who will have the ability to access the proxy materials on the website referred to in the Notice or to request a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy can be found in the Notice. In addition, stockholders may request proxy materials in printed form by mail or electronically by email on an ongoing basis by writing to Karen Winkler, Golden Minerals Company, 350 Indiana Street, Suite 800, Golden, Colorado 80401. We encourage stockholders to take advantage of the availability of the proxy materials on the Internet to help reduce the environmental impact of our annual meetings.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 22, 2014:

The Proxy Statement, proxy card, and Annual Report to Stockholders, including financial statements for the fiscal year ended December 31, 2013, are available at www.proxyvote.com.

ABOUT THE MEETING

Why am I receiving this proxy statement and proxy card?

You have received these proxy materials because our board of directors is soliciting your proxy to vote your common stock at the annual meeting of stockholders on May 22, 2014. This Proxy Statement describes matters on which we would like you to vote at our annual meeting. It also provides you with information on these matters so that you may make an informed decision.

What is the purpose of the annual meeting?

At our annual meeting, stockholders will vote on the following three items of business:

(1) To elect eight (8) directors to hold office until the 2015 annual meeting of stockholders;

(2) To ratify the selection of EKS&H, LLLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2014; and

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(3) To approve amendments to the Company s 2009 Equity Incentive Plan.

Stockholders will also vote on such other matters as may properly come before the meeting or any postponement or adjournment thereof.

What are the board s recommendations?

Our board of directors recommends that you vote:

- **FOR** the election of each of the eight (8) nominated directors (see Proposal No. 1)

- **FOR** the ratification of the appointment of EKS&H, LLLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2014 (see Proposal No. 2)

- **FOR** the approval of amendments to the Company s 2009 Equity Incentive Plan (see Proposal No. 3)

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the board of directors or, if no recommendation is given, in their own discretion.

What shares are entitled to vote?

As of March 24, 2014, the record date for the meeting, we had 43,530,833 shares of common stock outstanding. This amount includes 866,002 shares of unvested restricted common stock issued pursuant to our 2009 Equity Incentive Plan, which are not entitled to vote at the annual meeting. Therefore, as of March 24, 2014, 42,664,831 shares of common stock were outstanding and are entitled to vote at the annual meeting. You can vote all of the shares that you owned on the record date. These shares include: (1) shares held directly in your name as the stockholder of record, and (2) shares held for you as the beneficial owner through a stockbroker, bank or other nominee.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Most stockholders hold their shares through a broker or other holder of record rather than directly in their own names. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the stockholder of record, and we have sent the Notice directly to you. As the stockholder of record, you have the right to grant your voting proxy directly to the named proxy holder or to vote in person at the meeting. You may vote by proxy via the Internet or telephone by following the instructions provided in the Notice. If you request printed copies of the proxy materials by mail, you may also vote by filling out the proxy card included with the materials or by calling the toll free number found on the proxy card.

Beneficial Owner. If your shares are held in a brokerage account, or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name, and the proxy materials are being forwarded to you by that holder together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote and are also invited to attend the annual meeting.

Who may attend the meeting?

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting. If you are not a stockholder of record but hold shares through a broker, bank or other holder of record (i.e., in street name) and wish to attend the meeting, you will need to provide proof of beneficial ownership on the record date, such as your most recent account statement as of March 24, 2014, a copy of the voting instruction card provided by your broker, bank or other holder of record, or other similar evidence of ownership. Registration and seating will begin at

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8:30 a.m., Denver time. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

How may I vote my shares in person at the annual meeting?

Shares held in your name as the stockholder of record may be voted in person at the annual meeting. Shares held beneficially in street name may be voted by you in person only if you obtain a legal proxy from the broker, bank or other holder of record that holds your shares giving you the right to vote the shares. Even if you plan to attend the annual meeting, we recommend that you submit your proxy or voting instructions prior to the meeting as described below so that your vote will be counted if you later decide not to attend the meeting.

How may I vote my shares without attending the annual meeting?

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a stockholder of record, you may vote by submitting a proxy card or via the Internet or telephone by following the instructions provided in the Notice. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, bank or other holder of record. For directions on how to vote, please refer to the instructions included in the Notice or, for shares held beneficially in street name, the voting instruction card provided by your broker, bank or other holder of record.

Proxies submitted properly by one of the methods described above will be voted in accordance with the instructions contained therein. If you submit a proxy but do not provide voting directions, the proxy will be voted FOR each of the eight director nominees, FOR the ratification of the appointment of EKS&H, LLLP as our independent registered public accounting firm, FOR the approval of amendments to the Company s 2009 Equity Incentive Plan, and in such manner as the proxy holders named on the proxy determine, in their discretion, upon such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

If your shares are held through a broker, bank or other nominee (collectively referred to as brokers), under applicable rules of the NYSE MKT LLC (NYSE MKT) (the exchange on which our common stock is traded), the broker will vote your shares according to the specific instructions it receives from you. If the broker does not receive voting instructions from you, the broker may vote only on proposals that are considered routine matters under the NYSE MKT rules. Under the NYSE MKT rules and guidance, the election of directors is no longer a routine matter on which your broker may vote without your instructions. As such, at this year s annual meeting, your broker may vote without your instructions only on the ratification of the appointment of EKS&H, LLLP as our independent registered public accounting firm for 2014. The broker s failure to vote on the election of directors or on the amendments to the Company s 2009 Equity Incentive Plan because the broker lacks discretionary authority to do so, commonly referred to as a broker non-vote, will not affect the outcome of the vote on either of these matters.

May I change my vote or revoke my proxy after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change the votes you cast or revoke your proxy at any time before the votes are cast at the meeting by (1) delivering a written notice of your revocation to our Corporate Secretary at our principal executive office located at 350

Indiana Street, Suite 800, Golden, Colorado 80401; (2) executing and delivering a later dated proxy card; or (3) by the Internet or telephone by following the voting instructions provided in the Notice. In addition, the powers of the proxy holders to vote your stock will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority (over 50%) of the shares of our common stock outstanding and entitled to vote as of the record date will constitute a quorum. There must be a quorum for any action to be taken at the meeting (other than an adjournment or postponement of the meeting). If you properly submit a proxy, even if you abstain from voting, then your shares will be counted for purposes of determining the presence of a quorum. If a broker or bank indicates on a proxy that it lacks discretionary authority as

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to certain shares to vote on a particular matter, commonly referred to as broker non-votes, those shares will still be counted for purposes of determining the presence of a quorum at the meeting.

What vote is required to approve each item?

Election of Directors. In the election of directors, eight (8) candidates will be elected by a plurality of affirmative votes. That is, the eight (8) candidates that receive the highest number of affirmative votes will be elected to serve on our board of directors.

Ratification of EKS&H, LLLP. The affirmative vote of a majority of the outstanding shares of common stock present at the meeting (either in person or by proxy) will be required for ratification.

Approval of amendments to the Company s 2009 Equity Incentive Plan. The affirmative vote of a majority of the outstanding shares of common stock present at the meeting (either in person or by proxy) will be required for approval of amendments to the Company s 2009 Equity Incentive Plan.

How may I vote on each of the proposals?

In the election of directors, you may vote ***FOR*** any one or more, or all, of the nominees, or your vote may be ***WITHHELD*** with respect to any one or more, or all, of the nominees. For the ratification of EKS&H, LLLP, you may vote ***FOR*** or ***AGAINST*** the proposal, or you may indicate that you wish to ***ABSTAIN*** from voting on the proposal. For approval of amendments to our 2009 Equity Incentive Plan, you may vote ***FOR*** or ***AGAINST*** the proposal, or you may indicate that you wish to ***ABSTAIN*** from voting on the proposal.

Who will count the proxy votes?

Votes will be tabulated by Broadridge Financial Solutions.

How will voting on any other business be conducted?

We do not expect any matters to be presented for a vote at the meeting other than the matters described in this Proxy Statement. If you grant a proxy, any of the officers named as proxy holder, Jeffrey G. Clevenger, Robert P. Vogels, Deborah J. Friedman, or their nominee(s) or substitute(s), will have the discretion to vote your shares on any additional matters that are properly presented for a vote at the meeting. If a nominee is not available as a candidate for director, the person named as the proxy holder will vote your proxy for another candidate nominated by our board of directors.

What rights of appraisal or similar rights of dissenters do I have with respect to any matter to be acted upon at the meeting?

No action is proposed at this meeting for which the laws of the state of Delaware or our bylaws provide a right of our stockholders to dissent and obtain appraisal of or payment for such stockholders common stock.

Who will bear the cost of this proxy solicitation?

The cost of this proxy solicitation will be borne by Golden Minerals. In addition to solicitation by mail, our officers, directors and employees may solicit proxies by telephone, email, or in person. We will also request banks and brokers to solicit their customers who have a beneficial interest in our common stock registered in the names of nominees, and we will reimburse banks and brokers for their reasonable out-of-pocket expenses in so doing.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

The board of directors unanimously recommends that the Company s stockholders vote FOR the election of the following eight (8) nominees:

Jeffrey G. Clevenger

W. Durand Eppler

Michael T. Mason

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Ian Masterton-Hume

Kevin R. Morano

Terry M. Palmer

Andrew N. Pullar

David H. Watkins

The board of directors has nominated for election at the annual meeting Messrs. Clevenger, Eppler, Mason, Masterton-Hume, Morano, Palmer, Pullar and Watkins to serve until the 2015 annual meeting of stockholders or until their successors are elected. Each nominee is currently a director of Golden Minerals and has consented to being named as a nominee.

The eight (8) candidates that receive the highest number of affirmative votes will be elected to serve on our board of directors.

The following table sets forth the name, residence, age, and current positions of each nominee:

Name and Residence	Age	Position
Jeffrey G. Clevenger(1) Colorado, USA	64	Director, Chairman of the Board of Directors
W. Durand Eppler(2)(4) Colorado, USA	60	Director, Chairman of the Corporate Governance and Nominating Committee
Michael T. Mason(4) New York, USA	69	Director
Ian Masterton-Hume(3) New South Wales, Australia	63	Director
Kevin R. Morano(3)(4) Florida, USA	60	Director, Chairman of the Compensation Committee
Terry M. Palmer(2)(4) Colorado, USA	69	Director, Chairman of the Audit Committee
Andrew N. Pullar Cayman Islands	42	Director
David H. Watkins(2)(3) British Columbia, Canada	69	Director

(1) Mr. Clevenger also serves as our President and Chief Executive Officer.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

(4) Member of the Corporate Governance and Nominating Committee.

Information regarding each nominee is set forth below, based upon information furnished to us by the nominee.

Nominees for Election

Jeffrey G. Clevenger. Mr. Clevenger has served as our Chairman of our board and as our President and Chief Executive Officer since March 2009. He has over 40 years of experience in the mining industry. Mr. Clevenger served as a director and President and Chief Executive Officer of our predecessor, Apex Silver Mines Limited (Apex Silver) from October 2004 until March 2009. Mr. Clevenger worked as an independent consultant from 1999 when Cyprus Amax Minerals Company, his previous employer, was sold until he joined Apex Silver in 2004. Mr. Clevenger served as Senior Vice President and Executive Vice President of Cyprus Amax Minerals Company from 1993 to 1998 and 1998 to 1999, respectively, and as President of Cyprus Climax Metals Company and its predecessor, Cyprus Copper Company, a large integrated producer of copper and molybdenum with operations in North and South America, from 1993 to 1999. He was Senior Vice President of Cyprus Copper

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Company from August 1992 to January 1993. From 1973 to 1992, Mr. Clevenger held various technical, management and executive positions at Phelps Dodge Corporation, including President and General Manager of Phelps Dodge Morenci, Inc. He is a Member of the American Institute of Mining, Metallurgical and Petroleum Engineers and the Metallurgical Society of America. Mr. Clevenger holds a B.S. in Mining Engineering with Honors from the New Mexico Institute of Mining and Technology and is a graduate of the Advanced International Senior Management Program of Harvard University. In determining Mr. Clevenger s qualifications to serve on our board of directors, the board has considered, among other things, his experience and expertise in the mining industry, including the operating, management, and executive positions he has held previously at several other mining companies.

W. Durand Eppler. Mr. Eppler has served as a director of our company since March 2009. Mr. Eppler has over 30 years of experience in the natural resources industry and has served since 2004 as a partner of Sierra Partners, LLC, a private investment and advisory firm he founded. The firm focuses exclusively on mining, oil and gas and energy resource industries and has both domestic and international experience. From June 2005 until August 2008, Mr. Eppler was President and Chief Executive Officer of Coal International Plc, an international coal mining and development company. From 1995 to 2004, Mr. Eppler held various positions at Newmont Mining Corporation, the world s second largest gold producer, and its subsidiaries, including Vice President of Newmont Capital, Ltd. (2002 to August 2004), Vice President, Corporate Development of Newmont Mining Corporation (2001 to 2002), President of Newmont Indonesia (1998 to 2001), and Vice President, Corporate Planning of Newmont Mining Corporation (1995 to 1998). Prior to joining Newmont, Mr. Eppler served as the Managing Director, Metals & Mining for Chemical Securities, Inc., a subsidiary of Chemical Bank (now JPMorgan Chase), where he was responsible for relationship management, technical support, corporate finance services, credit marketing and transaction execution for clients in the global precious metals, industrial and energy resources businesses. He currently serves on the boards of directors of Vista Gold Corporation, Augusta Resource Corporation, Frontier Mining Limited and Plata Latina Minerals Corporation, and he served on the boards of Allied Nevada Gold Corporation, Northern Energy Mining Company, and Coal International Plc during the last five years. Mr. Eppler holds a B.A. in Geography & Religion from Middlebury College and an M.S. in Mineral Economics from the Colorado School of Mines. Mr. Eppler is a member of the Society of Mining Engineers of A.I.M.E. and a member of the Global Leadership Council, College of Business, Colorado State University. In determining Mr. Eppler s qualifications to serve on our board of directors, the board has considered, among other things, his experience and expertise in mining industry public and private finance, corporate development in public mining companies, and management in the base and precious metals mining industries.

Michael T. Mason. Mr. Mason has served as a director of our company since September 2011, when he joined our board in connection with the business combination with ECU Silver Mining Inc. (ECU). Mr. Mason has more than 40 years of experience in the minerals and mining industry, including experience in the marketing of precious and base metals and other commodities. Prior to the business combination, Mr. Mason had been a director of ECU since April 2001. Mr. Mason is Chairman and Chief Executive Officer of Geovic Mining Corporation, serving as Chief Executive Officer since January of 2011 and as Chairman since February 2012. Mr. Mason has served as a director of Geovic Mining Corporation since May 2005. Since 1996, Mr. Mason has been a Managing Partner of Mineral Services, LLC, a private metals marketing consulting firm. During his career, Mr. Mason has held various executive positions at exploration and mining companies including serving as Chief Financial Officer of Global Gold Corporation from 2006 to 2007, Chief Financial Officer of Euromax Ltd. from 2005 to 2006, and President of MBMI Resources Inc. from 2002 to 2011. Mr. Mason served as director of Global Gold Corporation from 2005 to 2006, director of Euromax Ltd. from 2003 to 2010 and director of MBMI Resources Inc. from 2001 to 2011. In determining Mr. Mason s qualifications to serve on our board of directors, the board has considered, among other things, his experience in metals marketing, in the minerals and mining industry, and with ECU s businesses and operations.

Ian Masterton-Hume. Mr. Masterton-Hume has served as a director of our company since March 2009. He has over 30 years of experience in the natural resources industry. From January 2000 until December 2008, he was a partner of The Sentient Group, an independent private equity investment firm specializing in the global resources industry, which he also cofounded. The Sentient Group is the Company s largest stockholder holding approximately 20.92% of our outstanding common stock. Since December 2008, Mr. Masterton-Hume has acted as a consultant to The Sentient Group. From 1994 to 2000, Mr. Masterton-Hume served as a consultant to AMP Society s Private Capital Division, focused on international mining and telecommunications investments primarily in North and South

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America, Russia and the Pacific Rim. His experience prior to 1994 includes serving as a consultant to Equatorial Mining in Santiago, Chile regarding development of its copper assets, and approximately 23 years of investment management and investment banking experience for companies in Australia and the United Kingdom, including Impala Pacific Corporation in Hong Kong, Bain & Company in Sydney, Australia and the Jessel Group of companies in London and South Africa. He is currently a director of Iron Road Limited, Silver City Minerals Limited, Marengo Mining Limited and African Energy Resources Limited, and he served as a director of Norsemont Mining Inc. from February 2008 to July 2011, Andean Resources Ltd. from 2005 through 2010 and Apex Silver from 2007 through 2009. Mr. Masterton-Hume attended both Harrow School (England) and Nice University (France). In determining Mr. Masterton-Hume s qualifications to serve on our board of directors, the board has considered, among other things, his experience and expertise in mining industry public and private finance, and corporate development and mine project development in South America, together with his experience serving as a director of small publicly held mineral exploration and development companies operating in South America.

Kevin R. Morano. Mr. Morano has served as a director of our company since March 2009. He has over 35 years of experience in the mining industry. Mr. Morano has been Managing Principal of KEM Capital LLC, a private equity investment company and provider of management advisory services, since March 2007. Prior to forming his own company, Mr. Morano held a number of senior executive positions at major American public companies including a 21 year career at ASARCO Incorporated, a global copper mining company and specialty chemicals and aggregates producer, which was acquired by Grupo Mexico in December 1999. At ASARCO, Mr. Morano served in various senior executive capacities including President and Chief Operating Officer, Executive Vice President and Chief Financial Officer. He currently serves as a director of Bear Creek Mining Company, and he served as a director of Apex Silver from 2000 through March 2009. He also has previously served as a director of Southern Peru Copper Corporation and Coeur d Alene Mines. From March 2002 to March 2007, Mr. Morano was employed at Lumenis Ltd initially as Chief Financial Officer and subsequently as Senior Vice President for Marketing and Business Development. From May 2000 through October 2001, Mr. Morano served as the Chief Financial Officer of Exide Technologies. Mr. Morano holds a B.Sc. in Finance from Drexel University and an M.B.A. from Rider University. In determining Mr. Morano s qualifications to serve on our board of directors, the board has considered, among other things, his experience and expertise in the mining industry, public and private finance and management experience at public mining companies.

In April 2006, the SEC filed a complaint in U.S. District Court against Lumenis Ltd., one of its former officers and Mr. Morano, the Chief Financial Officer of Lumenis, alleging violations of the anti-fraud and other provisions of federal securities law. With respect to Mr. Morano, the complaint alleged, among other things, that Mr. Morano knowingly or recklessly permitted the improper accounting of certain sales transactions, which resulted in the publication by Lumenis Ltd. of materially false financial statements in 2002 and 2003. Without admitting or denying the allegations in the complaint, Mr. Morano consented to the entry, in September 2008, of a final consent judgment that, among other things, enjoins Mr. Morano from violating various provisions of the federal securities laws, including Section 17(a) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder and ordered Mr. Morano to pay a $55,000 civil penalty, and an SEC administrative order suspending Mr. Morano from appearing or practicing before the SEC as an accountant.

Terry M. Palmer. Mr. Palmer has served as a director of our company since March 2009. He has over 40 years of financial, management and accounting experience with a particular focus on the mining industry. Since January 2003, Mr. Palmer has worked on a part-time basis for and is a principal of the CPA firm of Marrs, Sevier & Company LLC. He spent 36 years at Ernst & Young LLP where he rose from a staff position to partner resLSPAN="2" NOWRAP ALIGN="center" STYLE="border-bottom:1px solid #000000">**Amount**

Balance at December 31, 2005

30,243 $302 $184,698 $(1,322) $476 $31,789 $215,943

Issuance of common stock, net

1,600 16 54,183 54,199

Issuance of restricted stock

27

Exercise of stock options

11 1 220 221

Reclass restricted stock

(1,322) 1,322

Compensation expense recognized

1,461 1,461

Change in unrealized gain on hedge transaction

798 798

Net income

53,845 53,845

Balance at June 30, 2006

31,881 $319 $239,240 $ $1,274 $85,634 $326,467

The accompanying notes are an integral part of these statements.

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended June 30,	
	2006	2005
NET INCOME	$ 22,933	$ 8,150
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains on hedge transactions (net of tax benefit of $208 and $0, respectively)	386	
COMPREHENSIVE INCOME	$ 23,319	$ 8,150

	Six Months Ended June 30,	
	2006	2005
NET INCOME	$ 53,845	$ 19,552
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains on hedge transactions (net of tax benefit of $430 and $0, respectively)	798	
COMPREHENSIVE INCOME	$ 54,643	$ 19,552

The accompanying notes are an integral part of these statements.

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HERCULES OFFSHORE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Hercules Offshore, LLC was formed in July 2004 as a Delaware limited liability company. On November 1, 2005 in connection with its initial public offering, Hercules Offshore, LLC was converted to a Delaware corporation named Hercules Offshore, Inc. (the Conversion). Upon the Conversion, each outstanding membership unit of the limited liability company was converted into 350 shares of common stock of the corporation. Unless the context indicates otherwise, references to the Company are to Hercules Offshore, LLC for periods prior to the Conversion and to Hercules Offshore, Inc. for periods after the Conversion.

The Company provides shallow-water drilling and liftboat services to the oil and gas exploration and production industry in the U.S. Gulf of Mexico and international markets through its Domestic Contract Drilling Services, International Contract Drilling Services, Domestic Marine Services and International Marine Services segments. The Company owns nine jackup drilling rigs and 51 liftboat vessels.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the rules of the Securities and Exchange Commission for interim financial statements and do not include all annual disclosures required by accounting principles generally accepted in the United States. The consolidated interim financial statements have not been audited. However, in the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position of the Company as of June 30, 2006, the results of its operations for the three months and six months ended June 30, 2006 and June 30, 2005 and its cash flows for the six months ended June 30, 2006 and June 30, 2005 have been reflected. The consolidated results of operations for the three months and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany account balances and transactions have been eliminated.

Revenue Recognition

For certain Contract Drilling Services contracts, the Company may receive lump-sum fees for the mobilization of equipment and personnel. Mobilization fees received and costs incurred to mobilize a rig from one market to another under contracts longer than one month are recognized over the term of the related drilling contract. The Company deferred $1,500,000 of revenue and $228,367 of expenses related to the mobilization of a rig under a long term contract in the three months and six months ended June 30, 2006. The Company recognized $125,000 of revenue and $19,031 of expense related to mobilization in the three and six months ended June 30, 2006.

The Company records reimbursements from customers for out-of-pocket expenses as revenues and the related cost as direct operating expenses. Total revenues from such reimbursements included $1,290,732 and $1,076,486 for the three months ended June 30, 2006 and June 30, 2005, respectively, and $2,474,044 and $2,326,923 for the six months ended June 30, 2006 and June 30, 2005, respectively.

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Stock Offering

The Company completed a public offering of 9,200,000 shares of its common stock at $36.00 per share in April 2006. The Company issued 1,600,000 shares of common stock, while the remaining 7,600,000 shares were sold by certain selling stockholders. The Company received approximately $54.2 million of proceeds from the offering, net of underwriter discounts and commissions and estimated expenses.

Stock-Based Compensation

On January 1, 2006, the Company adopted the modified prospective provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R). Prior to the adoptions of SFAS No. 123R, the Company followed the intrinsic value method as prescribed in Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB Opinion 25) and related interpretations. SFAS No. 123R requires that compensation cost for stock options is recognized beginning with the effective date based on the requirements of (a) SFAS No. 123R for all share-based payments granted after January 1, 2006 and (b) SFAS No. 123 for all share-based payments granted to employees prior to January 1, 2006 that remain unvested on January 1, 2006. SFAS No. 123R requires that any unearned compensation related to share-based payments awarded prior to adoption be eliminated against the appropriate equity account.

The Company s 2004 Long-Term Incentive Plan (the 2004 Plan) provides for the granting of stock options, restricted stock, performance stock awards and other stock-based awards to selected employees and non-employee directors of the Company. On April 26, 2006, the Company s stockholders approved an increase in the shares available for grant or award under the 2004 Plan by 1,000,000 shares. At June 30, 2006, 1,513,600 shares were available for grant or award under the 2004 Plan. The Nominating, Governance and Compensation Committee of the Company s Board of Directors selects participants from time to time and, subject to the terms and conditions of the 2004 Plan, determines all terms and conditions of awards. Options granted prior to the Company s initial public offering on November 1, 2005 became fully vested at that date. Options issued at the time of and after the Company s initial public offering under the 2004 Plan have a 10-year term and vest in four equal installments, one-fourth on the effective date of grant and one-fourth thereafter on the anniversary of the grant date for the next three years.

The Company is estimating that the cost relating to stock options granted through June 30, 2006 will be $4,930,931 over the remaining vesting period of 28 months; however, due to the uncertainty of the level of share-based payments to be granted in the future, these amounts are estimates and subject to change.

The following table summarizes stock option activity under the 2004 Plan:

	Three Months Ended June 30, 2006		Three Months Ended June 30, 2005	
	Number of Shares Underlying Options	**Weighted Average Exercise Price**	**Number of Shares Underlying Options**	**Weighted Average Exercise Price**
Outstanding at beginning of period	1,839,500	$ 11.38	822,500	$ 2.86
Granted			122,500	5.71
Exercised	(11,000)	20.00		
Forfeited	(5,625)	20.00		
Outstanding at end of period	1,822,875	$ 11.49	945,000	$ 3.23
Exercisable at end of period	1,157,625	$ 6.31		$

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	Six Months Ended June 30, 2006		Six Months Ended June 30, 2005	
	Number of Shares Underlying Options	Weighted Average Exercise Price	Number of Shares Underlying Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,839,500	$ 11.38		$
Granted			945,000	3.23
Exercised	(11,000)	20.00		
Forfeited	(5,625)	20.00		
Outstanding at end of period	1,822,875	$ 11.49	945,000	$ 3.23
Exercisable at end of period	1,157,625	$ 6.31		$

The following table summarizes information about stock options outstanding at June 30, 2006:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.86	822,500	8.33	$ 2.86	822,500	$ 2.86
5.71	122,500	8.83	5.71	122,500	5.71
20.00	877,875	9.33	20.00	212,625	20.00
	1,822,875	8.85	$ 11.49	1,157,625	$ 6.31

The following table reflects the impact of adopting SFAS No. 123R (dollars in thousands except per share data):

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Compensation expense related to stock options, net of tax of $171 and $370, respectively	$ 316	$ 686
Basic earnings per share impact	$ 0.01	$ 0.02
Diluted earnings per share impact	$ 0.01	$ 0.02

The fair value of the options granted under the 2004 Plan at the time of and after the Company s initial public offering was estimated on the date of grant using the Trinomial Lattice option pricing model with the following assumptions used:

Dividend yield	
Expected price volatility	35.00%
Risk-free interest rate	4.40%
Expected life of options in years	8.08
Weighted-average fair value of options granted	$ 9.45

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The following table summarizes information about restricted stock outstanding as of June 30, 2006 (dollars in thousands except per share data):

					Gross Compensation Cost		Compensation Cost - Net of Tax	
Grant Date	Grant Type	Number of Shares	Value on Grant Date	Vesting Period (Years)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
October 2005	Employee	70,000	$ 20.00	3	$ 117	$ 233	$ 76	$ 151
February 2006	Employee	9,900	30.38	3	25	42	16	27
April 2006	Non-employee director	12,000	40.00	1	120	120	78	78
May 2006	Employee	5,000	34.03	3	9	9	6	6
					$ 271	$ 404	$ 176	$ 262

Insurance Claims Receivable

Insurance claims receivable include expenses the Company has incurred and other amounts related to damage suffered in Hurricanes Katrina and Rita that the Company expects to be covered by insurance. The expenses incurred include costs to repair damage sustained by *Rig 21*, costs related to the clean-up efforts at the Company s New Iberia facilities and the salvage costs for *Rig 25*. At June 30, 2006, $13,162,626 was outstanding for insurance claims receivable related to Hurricane Katrina, including $3,984,437 for the salvage effort on *Rig 25* and $9,178,189 for the damage sustained by *Rig 21*. At December 31, 2005, $5,919,308 was outstanding for insurance claims receivable related to Hurricanes Katrina and Rita.

Assets Held for Sale

Assets are classified as held for sale when the Company has a plan for disposal and those assets meet the held for sale criteria of SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets . In June 2006, the Company entered into a definitive agreement to sell *Rig 41* for $3,150,000, net of commissions. The buyer paid a $340,000 non-refundable deposit, and the transaction closed in July 2006. The Company will recognize a gain of approximately $1,110,000 in the third quarter of 2006 on the sale for the excess of the purchase price over the rig s carrying value.

In June 2006, the Company entered into a definitive agreement to sell its New Iberia facility for $2,850,000, net of commissions. The buyer paid a $100,000 deposit, and the Company expects the sale to close in the third quarter of 2006, pending due diligence and the completion of repairs to the facility for damage sustained during Hurricane Rita in September 2005. The Company does not expect to recognize a material gain on the sale of the facility. The facility is currently classified in property and equipment on the Consolidated Balance Sheet.

Other Assets

Other assets consist of drydocking costs for liftboats, financing fees, unrealized gain on hedge transactions and other. The drydock costs are capitalized at cost and amortized on the straight-line method over a period of 12 to 24 months. Drydocking costs, net of accumulated amortization, at June 30, 2006 and December 31, 2005 were $5,130,869 and $3,906,106, respectively. Accumulated amortization of drydocking costs at June 30, 2006 and December 31, 2005 was $5,445,839 and $2,967,062, respectively. Amortization expense for drydocking costs was $2,940,638 and $624,068 for the three months ended June 30, 2006 and June 30, 2005, respectively. Amortization expense for drydocking costs was $5,308,762 and $994,200 for the six months ended June 30, 2006 and June 30, 2005, respectively.

Financing fees are deferred and amortized over the life of the applicable debt instrument. Unamortized deferred financing fees at June 30, 2006 were $2,837,669, net of accumulated amortization of $725,325. Unamortized deferred financing fees at December 31, 2005 were $2,531,966, net of accumulated amortization of $398,806. The amortization expense related to the deferred financing fees is included in interest expense on the statement of operations.

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Amortization expense for financing fees was $166,485 and $246,043 for the three months ended June 30, 2006 and June 30, 2005, respectively. Amortization expense for financing fees was $326,519 and $491,643 for the six months ended June 30, 2006 and June 30, 2005, respectively. Deferred financing fees of $439,046 and 632,228 were paid in the three and six months ended June 30, 2006, respectively. Deferred financing fees of $4,794,886 and $5,635,631 were paid in the three and six months ended June 30, 2005, respectively. Unamortized deferred financing fees at December 31, 2005 and June 30, 2006 relate to the debt outstanding at those dates (see NOTE 5).

The Company entered into several transactions to hedge its variable rate debt with the purpose and effect of fixing the interest rate on a portion of the outstanding principal of the term loan (see NOTE 6).

Income Taxes

The Company was a limited liability company until its conversion to a Delaware corporation on November 1, 2005. Prior to the Conversion, the Company elected to be taxed as a partnership. As such, the members of the Company were taxed on their proportionate share of net income prior to the Conversion and no provision or liability for income taxes was included in the Company s financial statements for periods prior to the Conversion. When the Company became a taxable entity in the Conversion, a provision of approximately $12,145,040 was made reflecting the tax effect of the difference between the book and tax basis of assets and liabilities as of November 1, 2005, the effective date of the Conversion.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the requirements of FIN 48. The Company intends to adopt FIN 48 in the first quarter of 2007 and does not believe it will have a material impact on its consolidated balance sheet, statement of operations or statement of cash flow.

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NOTE 2 EARNINGS PER SHARE

The reconciliation of the numerator and denominator used for the computation of basic and diluted earnings per share is as follows (net income in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Numerator:				
Net income	$ 22,933	$ 8,150	$ 53,845	$ 19,552
Denominator:				
Weighted average basic shares	31,570,354	23,922,850	30,909,517	23,821,044
Add effect of stock options	1,258,722	320,330	1,216,912	199,603
Weighted average diluted shares	32,829,076	24,243,180	32,126,429	24,020,647
Basic earnings per share	$ 0.73	$ 0.34	$ 1.74	$ 0.82
Diluted earnings per share	$ 0.70	$ 0.34	$ 1.68	$ 0.81

The Company calculates earnings per share by dividing net income by the weighted average number of shares outstanding. On November 1, 2005, in connection with its initial public offering, the Company converted from a limited liability company to a corporation. Upon the Conversion, each outstanding membership unit of the limited liability company was converted into 350 shares of common stock of the corporation. Share-based information contained herein assumes that the Company had effected the conversion of each outstanding member unit into 350 shares of common stock for all periods prior to the Conversion. Diluted earnings per share include the dilutive effects of any outstanding stock options calculated under the treasury method. Options with an exercise price equal to or in excess of the average market price of the Company s shares are excluded from the calculation of the dilutive effect of stock options for diluted earnings per share calculations.

NOTE 3 ASSET ACQUISITIONS

In February 2006, the Company purchased *Rig 26* for $20,100,000. *Rig 26* had been cold stacked for the prior six years. The Company has commenced a reactivation and upgrade project that it expects will take up to one year and cost approximately $37,000,000. In June 2006, the Company increased its planned expenditures on the project to increase the marketability of the rig in international regions. Upon completion of the project, the Company plans to deploy the rig in a suitable international market.

In June 2006, the Company acquired five liftboats from Laborde Marine Lifts, Inc. (Laborde). In addition, the Company assumed the construction of an additional liftboat pursuant to a construction agreement assigned to the Company by Laborde at the closing. Pursuant to the terms of the purchase agreement, the original purchase price of $52,000,000 was reduced by $2,655,830, which represented the total amount remaining due at closing under the construction contract for the sixth liftboat. Construction of the liftboat was completed in July 2006.

NOTE 4 BENEFIT PLANS

The Company has established a 401(k) plan for its employees. Participation is available to all employees beginning two months from the date of hire. Participants can contribute up to a maximum of $15,000 each year, and the Company matches participant contributions equal to 100% of the first 3% and 50% of the next 2% of a participant s salary. The Company made matching contributions of $297,449 and $220,241 for the three months ended June 30, 2006 and June 30, 2005, respectively. The Company made matching contributions of $593,085 and $424,614 for the six months ended June 30, 2006 and June 30, 2005, respectively.

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NOTE 5 LONG-TERM DEBT

Long-term debt is comprised of the following (dollars in thousands):

	June 30, 2006	December 31, 2005
Senior secured term loan due June 2010	$ 93,950	$ 94,650
Total debt	93,950	94,650
Less debt due within one year	1,400	1,400
Total long-term debt	$ 92,550	$ 93,250

In June 2005, the Company entered into a senior secured credit agreement with a syndicate of financial institutions. This agreement, as amended, provides for a $140,000,000 term loan and a $75,000,000 revolving credit facility. As of June 30, 2006, no amounts were outstanding and no letters of credit had been issued under the revolving credit facility. As of that date, $93,950,000 of the principal amount of the term loan was outstanding, and the interest rate was 8.24%. The Company may seek commitments to increase the amount available under the credit agreement by an additional $25,000,000 if its leverage ratio, after giving effect to the incurrence of the additional $25,000,000 of borrowings, is no greater than 2.5 to 1. Amounts repaid under the term loan cannot be reborrowed except pursuant to such an increase in availability.

The credit agreement contains financial covenants relating to leverage, fixed charge coverage and collateral coverage. Other covenants contained in the agreement restrict, among other things, repurchases of equity interests, mergers, asset dispositions, guaranties, debt, liens, acquisitions, dividends, distributions, investments, affiliate transactions, prepayments of other debt and capital expenditures. The credit agreement permits the Company to make advances to and investments in its foreign subsidiaries provided it meets applicable financial covenants. Management believes that the Company is in compliance in all material respects with its covenants under the credit agreement. The credit agreement contains customary events of default.

The Company s obligations under the credit agreement are secured by its liftboats, all of its domestic rigs and substantially all of its other personal property, including all the equity of its domestic subsidiaries and 65% of the equity of certain foreign subsidiaries. All of the Company s material domestic subsidiaries guarantee the Company s obligations under the agreement and have granted similar liens on substantially all of their assets. The Company s foreign subsidiaries are not guarantors and the assets owned by the foreign subsidiaries are not held as collateral for the loans.

In January 2006, the Company amended the credit agreement to provide for, among other things, the release of the guaranty, security agreement and vessel mortgages recently entered into by two of its Cayman subsidiaries in connection with the transfer of *Rig 16* and *Rig 31*. In addition, the Company is permitted to advance up to $20,000,000 to these two Cayman subsidiaries and to invest an additional $25,000,000 million in its foreign subsidiaries. The Company also amended the credit agreement to extend the termination date of the 1% prepayment premium (that is applicable to certain prepayments of the term loan) from June 29, 2006 to December 31, 2006. The Company paid $193,176 in fees in the first quarter of 2006 related to these amendments.

In June 2006, the Company further amended the credit agreement. Among other things, the amendment increased the commitments under the revolving credit facility from $25,000,000 to $75,000,000, reduced the interest rate under the revolving credit facility by 1.0% per annum, and extended the maturity date of the revolving credit facility from June 29, 2008 to June 29, 2010. It also removed the limitations on investments by the Company in its subsidiaries that are not guarantors to the credit agreement. The previous limit of $25,000,000 on such investments was replaced by a collateral maintenance test that requires the Company to maintain a ratio of (1) the orderly liquidation value of all of the vessels mortgaged pursuant to the credit agreement to (2) the sum of the revolving commitments and outstanding term loans under the credit agreement, of not less than 1.25 to 1.00. In addition, the dollar limits on other investments (including acquisitions) by the Company were eliminated, provided the Company is in compliance with its covenants under the credit agreement after giving effect to the investment and, with respect to an investment greater than $25,000,000, the Company s leverage ratio is not greater than 3.50 to 1.00 prior to and after

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giving effect to such investment. The existing annual limit of $25,000,000 on capital expenditures and the interest coverage ratio were replaced by a fixed charge coverage ratio, which requires the Company to maintain a ratio of (1) EBITDA less maintenance capital expenditures and cash taxes paid to (2) fixed charges, of not less than 1.25 to 1.00. Furthermore, a $2,000,000 limitation on insurance deductibles was removed and replaced with a requirement that the Company maintain insurance that is customary for the industry. Finally, a $2,500,000 annual limit on asset sales was increased to an aggregate basket of $95,000,000 for the term of the credit agreement, provided the net proceeds from such asset sales are used to repay amounts outstanding under the term loan.

The Company paid $439,046 in fees in the three months ended June 30, 2006 and $632,222 in fees in the six months ended June 30, 2006 related to the amendments discussed above.

NOTE 6 DERIVATIVE INSTRUMENTS AND HEDGING

In July 2005, the Company entered into several transactions to hedge its variable rate debt with the purpose and effect of fixing the interest rate on a portion of the outstanding principal of the term loan. The Company entered into two floating-to-fixed interest rate swaps on a total of $70,000,000 of the term loan principal under which the Company receives an interest rate of three-month LIBOR and pays a fixed coupon over three years, with the terms of the swaps matching those of the term loan. The Company also entered into two purchased interest rate caps hedging interest payments made on a total of $20,000,000 of the term loan principal at a strike price of 5.0% over three years. The counterparty is obligated to pay the Company in any quarter that actual LIBOR resets above the strike price, with the terms of the caps matching those of the term loan. All hedge transactions have payment dates of October 1, January 1, April 1 and July 1.

These hedging arrangements effectively fix the interest rate on $70,000,000 of the principal amount at 7.54% for three years and cap the interest rate on $20,000,000 of the principal amount at 8.25% for three years. These hedge transactions are being accounted for as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement no. 133) , and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . The cumulative net unrealized gain on these hedging instruments was $1,960,717 at June 30, 2006 and is included in other assets and in accumulated other comprehensive income, net of tax of $686,251, in the consolidated balance sheet at June 30, 2006. The Company did not recognize a gain or loss due to hedge ineffectiveness in its consolidated statements of operations for the six months ended June 30, 2006 related to these hedging instruments. The Company recognized gains of $169,908 and $129,815 in interest expense in the consolidated statements of operations for the three months ended June 30, 2006 and the six months ended June 30, 2006, respectively, related to the interest rate swaps.

NOTE 7 SEGMENTS

The Company s operations are aggregated into four reportable segments: (i) Domestic Contract Drilling Services, (ii) International Contract Drilling Services, (iii) Domestic Marine Services and (iv) International Marine Services. The Contract Drilling Services segments consist of jackup rigs used in support of offshore drilling activities. The Domestic Contract Drilling Services segment consists of jackup rigs operated in the U.S. Gulf of Mexico, while the International Contract Drilling Services segment consists of jackup rigs operated outside of the U.S. Gulf of Mexico (which currently consists of the Company s jackup rig operating offshore Qatar and one jackup rig undergoing refurbishment and upgrade). The Marine Services segments consist of liftboats used in offshore support services. The Domestic Marine Services segment consists of liftboats operated in the U.S. Gulf of Mexico, while the International Marine Services Segment consists of liftboats operated outside of the U.S. Gulf of Mexico (which currently consists of the Company s liftboats operating in Nigeria). The Company eliminates intersegment revenue and expenses, if any.

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Operating results and net income by segment were as follows (in thousands):

Three Months Ended June 30, 2006

	Domestic Contract Drilling Services	International Contract Drilling Services	Domestic Marine Services	International Marine Services	Corporate and Other	Total
Revenues	$ 38,291	$ 4,276	$ 30,163	$ 3,567	$	$ 76,297
Operating expenses, excluding depreciation and amortization	12,219	1,603	10,857	1,581		26,260
Depreciation and amortization	2,089	251	4,910	274	27	7,551
General and administrative, excluding depreciation and amortization	1,587	472	417	593	3,532	6,601
Operating income (loss)	22,396	1,950	13,979	1,119	(3,559)	35,885
Interest expense	(1,398)		(765)			(2,163)
Other, net	155		385	(1)	981	1,520
Income before income taxes	21,153	1,950	13,599	1,118	(2,578)	35,242
Income tax expense	(7,546)		(5,111)	(349)	697	(12,309)
Net income (loss)	$ 13,607	$ 1,950	$ 8,488	$ 769	$ (1,881)	$ 22,933
Total assets (at end of period)	$ 138,512	$ 83,335	$ 188,497	$ 21,168	$ 60,792	$ 492,304

Three Months Ended June 30, 2005

	Domestic Contract Drilling Services	International Contract Drilling Services	Domestic Marine Services	International Marine Services	Corporate and Other	Total
Revenues	$ 26,288	$	$ 10,787	$	$	$ 37,075
Operating expenses, excluding depreciation and amortization	12,095		5,847			17,942
Depreciation and amortization	1,318		1,534		8	2,860
General and administrative, excluding depreciation and amortization	1,682		380		842	2,904
Operating income (loss)	11,193		3,026		(850)	13,369
Interest expense	(1,832)		(575)		(127)	(2,534)
Loss on early retirement of debt	(1,843)		(943)			(2,786)
Other, net	83		9		9	101
Net income (loss)	$ 7,601	$	$ 1,517	$	$ (968)	$ 8,150
Total assets (at end of period)	$ 137,692	$	$ 86,588	$	$ 20,419	$ 244,699

Six Months Ended June 30, 2006

	Domestic Contract Drilling Services	International Contract Drilling Services	Domestic Marine Services	International Marine Services	Corporate and Other	Total
Revenues	$ 65,288	$ 4,276	$ 55,760	$ 7,106	$	$ 132,430
Operating expenses, excluding depreciation and amortization	23,326	1,603	20,050	3,217		48,196
Depreciation and amortization	3,741	251	8,888	553	52	13,485

General and administrative, excluding depreciation and amortization	3,373	507	1,162	1,354	6,791	13,187
Operating income (loss)	34,848	1,915	25,660	1,982	(6,843)	57,562
Interest expense	(2,746)		(1,503)			(4,249)
Gain on disposal of asset	29,580					29,580
Other, net	196		398	(1)	1,230	1,823
Income before income taxes	61,878	1,915	24,555	1,981	(5,613)	84,716
Income tax expense	(22,615)		(9,168)	(652)	1,564	(30,871)
Net income (loss)	$ 39,263	$ 1,915	$ 15,387	$ 1,329	$ (4,049)	$ 53,845

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Six Months Ended June 30, 2005

	Domestic Contract Drilling Services	International Contract Drilling Services	Domestic Marine Services	International Marine Services	Corporate and Other	Total
Revenues	$ 51,179	$	$ 19,951	$	$	$ 71,130
Operating expenses, excluding depreciation and amortization	23,336		10,427			33,763
Depreciation and amortization	2,610		2,701		11	5,322
General and administrative, excluding depreciation and amortization	2,865		821		1,419	5,105
Operating income (loss)	22,368		6,002		(1,430)	26,940
Interest expense	(3,621)		(1,089)		(127)	(4,837)
Loss on early retirement of debt	(1,843)		(943)			(2,786)
Other, net	158		63		14	235
Net income (loss)	$ 17,062	$	$ 4,033	$	$ (1,543)	$ 19,552

NOTE 8 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved in various claims and lawsuits in the normal course of business. Management does not believe any accruals are necessary in accordance with SFAS No. 5, Accounting for Contingencies .

Insurance

The Company is self-insured for the deductible portion of its insurance coverage. Management believes adequate accruals have been made on known and estimated exposures up to the deductible portion of the Company s insurance coverage. Management believes that claims and liabilities in excess of the amounts accrued are adequately insured.

The Company maintains insurance coverage that includes coverage for physical damage, third party liability, maritime employers liability, general liability, vessel pollution and other coverages. The Company s primary marine package provides for hull and machinery coverage for the Company s rigs and liftboats up to a scheduled value for each asset. The maximum coverage for these assets is $580,000,000; however, coverage for U.S. Gulf of Mexico named windstorm damage is subject to an annual aggregate limit on liability of $75,000,000. The policies are subject to deductibles and other conditions. Deductibles for events that are not U.S. Gulf of Mexico named windstorm events are $1,500,000 per occurrence for drilling rigs, and range from $250,000 to $1,000,000 per occurrence for liftboats, depending on the insured value of the particular vessel. The deductibles for drilling rigs in a U.S. Gulf of Mexico named windstorm event are $1,500,000 per rig for each occurrence plus an additional $5,000,000 for each U.S. Gulf of Mexico named windstorm. The protection and indemnity coverage under the primary marine package has a $5,000,000 limit per occurrence with excess liability coverage up to $100,000,000. The primary marine package also provides coverage for cargo and charterer s legal liability. Vessel pollution is covered under a Water Quality Insurance Syndicate policy. In addition to the marine package, the Company has separate policies providing coverage for general domestic liability, employer s liability, domestic auto liability and non-owned aircraft liability, with customary deductibles and coverage. Insurance premiums and fees for coverage of the Company s operations, assets and personnel base (as the same existed at June 30, 2006) are approximately $23,900,000 for the twelve-month policy period ending July 1, 2007, an increase of approximately 151% over the previous policy period on an annualized basis.

In connection with the renewal of certain of the Company s insurance policies, the Company entered into an agreement to finance a portion of the annual insurance premiums. Approximately $17,900,000 was financed through this arrangement. The interest rate is 5.75%, and the note matures in April 2007.

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2005 Hurricanes

In August 2005, two of the Company s jackup rigs, *Rig 21* and *Rig 25*, sustained damage during Hurricane Katrina. *Rig 25* was insured for $50,000,000, and the Company reached a settlement with its insurance underwriters and received net insurance proceeds of $48,750,000 related to this claim in the second quarter of 2006, which represents the insured value less the negotiated salvage value of $1,250,000. The Company retained title to the rig and removed usable materials and equipment to be used on its other rigs. The Company sold the remaining material for scrap in July 2006. The Company recognized a gain of $29,580,283 in March 2006 related to its insurance claim on *Rig 25*, which represented the gross proceeds of $50,000,000 expected to be received, less the rig book value of $20,116,178 and less $303,539 of items related to the salvage operation of the rig not expected to be reimbursed by the Company s insurance carriers. *Rig 21* sustained substantial damage to its mat and was moved to a shipyard in Mississippi to repair the damage. The rig returned to service in April 2006. As of June 30, 2006, the Company has claims receivable of $13,162,626 for the salvage of *Rig 25* and the repairs to *Rig 21*. The Company believes the full amount will be collected.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements as of June 30, 2006 and for the three months and six months ended June 30, 2006 and June 30, 2005, included elsewhere herein, and with our annual report on Form 10-K for the year ended December 31, 2005. The following information contains forward-looking statements. Please read Forward-Looking Statements below for a discussion of certain limitations inherent in such statements. Please also read Risk Factors in Item 1A of our annual report and in Item 1A of Part II of this quarterly report for a discussion of certain risks facing our company.

OVERVIEW

We provide shallow-water drilling and liftboat services to the oil and natural gas exploration and production industry primarily in the U.S. Gulf of Mexico. We provide these services to major integrated energy companies and independent oil and natural gas operators. We report our business activities in four business segments, Domestic Contract Drilling Services, International Contract Drilling Services, Domestic Marine Services and International Marine Services.

Contract Drilling Services. We own a fleet of nine jackup rigs that can drill in maximum water depths ranging from 85 to 250 feet. Our Domestic Contract Drilling Services segment includes six jackup rigs operating in the U.S. Gulf of Mexico and one rig currently undergoing refurbishment and upgrade, and our International Contract Drilling Services segment includes one jackup rig working offshore Qatar and one jackup rig currently undergoing refurbishment and upgrade in Malaysia. Under most of our contract drilling service agreements, we are paid a fixed daily rental rate called a dayrate, and we are required to pay all costs associated with our own crews as well as the upkeep and insurance of the rig and equipment.

Marine Services. We own a fleet of 51 liftboats in our Domestic and International Marine Services segments. Our Domestic Marine Services segment includes 47 liftboats operating in the U.S. Gulf of Mexico, and our International Marine Services segment includes four liftboats operating offshore Nigeria. Prior to the fourth quarter of 2005, during which we acquired our international liftboats, we did not report an International Marine Services segment. Our liftboats are used to provide a wide range of offshore support services, including platform maintenance, platform construction, well intervention and decommissioning services, and can be moved from location to location within a short period of time. Under most of our liftboat contracts, we are paid a fixed dayrate for the rental of the vessel, which typically includes the costs of a small crew of four to eight employees, and we also receive a variable rate for reimbursement of other operating costs such as catering, fuel, rental equipment and other items.

During the second quarter of 2006, we commenced work with *Rig 16* under our first international drilling contract and signed a definitive drilling contract for *Rig 31* for work offshore India. We expect the contract for *Rig 31* to commence in the third quarter of 2006 following the completion of its refurbishment and upgrade. Upgrade and refurbishment projects are subject to various risks, including risks of delay or cost overruns, as more fully described in Item 1A of our annual report on Form 10-K for the year ended December 31, 2005. These risks may jeopardize the timing of the delivery of *Rig 31* and could enable the customer to withhold payment of the otherwise applicable dayrate or cancel the contract for the rig.

2005 HURRICANES

Two of our jackup rigs, *Rig 21* and *Rig 25*, sustained damage during Hurricane Katrina in August 2005. *Rig 21* sustained substantial damage to its mat and was moved to a shipyard in Mississippi to repair the damage. The rig returned to service in April 2006. *Rig 25,* which was inoperable, was insured for $50.0 million, and we reached a settlement with our insurance underwriters and received net insurance proceeds of $48.8 million related to the claim in the second quarter of 2006, which represents the insured value less the negotiated salvage value of $1.3 million. We retained title to the rig and removed usable materials and equipment to be used on our other rigs. We sold the remaining material for scrap in July 2006. We recognized a gain of $29.6 million in March 2006 related to our insurance claim on *Rig 25*, which represented the $50.0 million in gross proceeds expected to be received, less the rig book value of $20.1 million and less $0.3 million of items related to the salvage operation of the rig not expected to be reimbursed by our insurance carriers. None of our rigs or liftboats sustained any material damage during Hurricane Rita in September 2005. We had accrued a total of $13.2 million as of June 30, 2006 for expenses we have incurred and other amounts related to damage suffered in Hurricane Katrina that we expect to be covered by insurance. These amounts are included in insurance claims receivable on our Consolidated Balance Sheet as of June 30, 2006, and include $4.0 million accrued for the salvage effort on *Rig 25* and $9.2 million accrued for the damage sustained by *Rig 21*.

RECENT DEVELOPMENTS

Liftboat Acquisition from Laborde

In June 2006, we acquired five liftboats from Laborde Marine Lifts, Inc. (Laborde). In addition, we assumed the construction of an additional liftboat pursuant to a construction agreement assigned to us by Laborde at the closing. Pursuant to the terms of the purchase agreement, the original purchase price of $52.0 million was reduced by $2.7 million, which represented the total amount remaining due at closing under the construction contract for the sixth liftboat. Construction of the liftboat was completed in July 2006. The liftboats have leg lengths ranging from 105 to 200 feet and are located in the U.S. Gulf of Mexico.

We used $48.8 million of insurance proceeds related to *Rig 25* to pay the purchase price of the Laborde transaction at closing. The balance was paid from cash on hand.

Public Offering of Common Stock

We completed a public offering of 9,200,000 shares of our common stock at $36.00 per share in April 2006. We issued 1,600,000 shares of common stock, while the remaining 7,600,000 shares were sold by certain selling stockholders. We received approximately $54.2 million of proceeds from the offering, net of underwriter discounts and commissions and estimated expenses. We are using the net proceeds we received for general corporate purposes.

Insurance Renewal

In June 2006, we completed the renewal of all of our key insurance policies, except for the directors and officers liability policy, which does not expire until November 1, 2006. We maintain insurance coverage that includes coverage for physical damage, third party liability, maritime employers liability, general liability, vessel pollution and other coverages. Our primary marine package provides for hull and machinery coverage for our drilling rigs and liftboats up to a scheduled value for each asset. Under the renewed policies, the maximum coverage for these assets was increased to $580.0 million; however, coverage for U.S. Gulf of Mexico named windstorm damage is now subject to an annual aggregate limit on liability of $75.0 million. The policies are subject to deductibles and other conditions. Under the new coverage, deductibles for events that are not U.S. Gulf of Mexico named windstorm events are $1.5 million per occurrence for drilling rigs, and range from $250,000 to $1,000,000 per occurrence for liftboats, depending on the insured value of the particular vessel. The deductibles for drilling rigs in a U.S. Gulf of Mexico named windstorm event are $1.5 million per rig for each occurrence plus an additional $5.0 million for each U.S. Gulf of Mexico named windstorm. Our maritime employers liability policy was renewed for an 18 month term on terms substantially similar to the terms of the previous policy, and the renewed policy retains the previous deductible level of $25,000 per occurrence.

Overall, our insurance premiums and fees for coverage for our operations, assets and personnel base (as the same existed at June 30, 2006) increased from approximately $9.5 million (on an annualized basis) in 2005 to $23.9 million under the renewed coverages. Higher premium costs reflect the damage sustained by the oil and natural gas industry from Hurricanes Ivan, Katrina and Rita. In addition, our premiums were also affected by the large increase in the insured values of *Rig 16*, *Rig 26* and *Rig 31*, which we acquired since our last insurance renewal and have substantially upgraded.

We have obtained financing from the insurance underwriters for 75% of the premium over nine months at an interest rate of 5.75% per annum. We will incur total interest cost of approximately $435,000 under this arrangement. We reduced our total premium by $476,000, and thus the interest cost, by paying the premium for the rig package immediately.

Rig Sale Agreement

In June 2006, we entered into a definitive agreement to sell *Rig 41* for $3.2 million, net of commissions. The buyer paid a $0.3 million non-refundable deposit, and the sale closed in July 2006. We will recognize a gain of approximately $1.1 million in the third quarter of 2006 on the sale for the excess of the purchase price over the rig s carrying value.

Facility Sale Agreement

In June 2006, we entered into a definitive agreement to sell our New Iberia facility for $2.9 million, net of commissions. The buyer paid a $0.1 million deposit, and we expect the sale to close in the third quarter of 2006, pending due diligence and the completion of repairs to the facility for damage sustained during Hurricane Rita in September 2005. We do not expect to recognize a material gain on the sale of the facility.

Amendment to Credit Agreement

In June 2006, we amended our credit agreement. Among other things, the amendment increased the commitments under the revolving credit facility from $25.0 million to $75.0 million, reduced the interest rate under the revolving credit facility by 1.0% per annum, and extended the maturity date of the revolving credit facility from June 29, 2008 to June 29, 2010. It also removed the limitations on investments by us in our subsidiaries that are not guarantors to the credit agreement. The previous limit of $25.0 million on such investments was replaced by a collateral maintenance test that requires us to maintain a ratio of (1) the orderly liquidation value of all of the vessels mortgaged pursuant to the credit agreement to (2) the sum of the revolving commitments and outstanding term loans under the credit agreement, of not less than 1.25 to 1.00. In addition, the dollar limits on other investments (including acquisitions) by us were eliminated, provided we are in compliance with our covenants under the credit agreement after giving effect to the investment and, with respect to an investment greater than $25.0 million, our leverage ratio is not greater than 3.50 to 1.00 prior to and after giving effect to such investment. The existing annual limit of $25.0 million on capital expenditures and the interest coverage ratio were replaced by a fixed charge coverage ratio, which requires us to maintain a ratio of (1) EBITDA less maintenance capital expenditures and cash taxes paid to (2) fixed charges, of not less than 1.25 to 1.00. Furthermore, a $2.0 million limitation on insurance deductibles was removed and replaced with a requirement that we maintain insurance that is customary for the industry. Finally, a $2.5 million annual limit on asset sales was increased to an aggregate basket of $95.0 million for the term of the credit agreement, provided the net proceeds from such asset sales are used to repay amounts outstanding under the term loan. We paid $0.4 million in fees related to the amendment.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are important to our results of operations, financial condition and cash flows and require management s most difficult, subjective or complex judgments. Different amounts would be reported under alternative assumptions. We have evaluated the accounting policies used in the preparation of the unaudited consolidated financial statements and related notes appearing elsewhere in this Form 10-Q. We apply those accounting policies that we believe best reflect the underlying business and economic events, consistent with accounting principles generally accepted in the United States. We believe that our policies are generally consistent with those used by other companies in our industry.

We periodically update the estimates used in the preparation of the financial statements based on our latest assessment of the current and projected business and general economic environment. We believe that our more critical

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accounting policies include those related to property and equipment, revenue recognition, allowance for doubtful accounts, deferred charges and stock-based compensation. Inherent in such policies are certain key assumptions and estimates. For additional information regarding our critical accounting policies, please read Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in Item 7 of our annual report on Form 10-K for the year ended December 31, 2005. In addition, on January 1, 2006, we adopted the modified prospective provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) Share-Based Payment, which changed the manner in which we account for share-based payments granted to employees. For additional information about this Statement, please read Note 1 of the Notes to Consolidated Financial Statements included in Item 1 of Part I of this quarterly report.

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RESULTS OF OPERATIONS

The following table sets forth our operating days, average utilization rates, average revenue and expenses per day, revenues and operating expenses by operating segment and other selected information for the periods indicated:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Dollars in thousands, except per day amounts)		(Dollars in thousands, except per day amounts)	
Domestic Contract Drilling Services Segment:				
Number of rigs (as of end of period)	7	8	7	8
Operating days	494	602	876	1,212
Available days	524	637	974	1,251
Utilization (1)	94.3%	94.5%	89.9%	96.9%
Average revenue per rig per day (2)	$ 77,513	$ 43,653	$ 74,530	$ 42,234
Average operating expense per rig per day (3)	$ 23,318	$ 18,988	$ 23,949	$ 18,654
Revenues	$ 38,291	$ 26,288	$ 65,288	$ 51,179
Operating expenses, excluding depreciation and amortization	$ 12,219	$ 12,095	$ 23,326	$ 23,336
Depreciation and amortization expense	$ 2,089	$ 1,318	$ 3,741	$ 2,610
General and administrative expenses, excluding depreciation and amortization	$ 1,587	$ 1,682	$ 3,373	$ 2,865
Operating income	$ 22,396	$ 11,193	$ 34,848	$ 22,368
International Contract Drilling Services Segment:				
Number of rigs (as of end of period)	2		2	
Operating days	33		33	
Available days	37		37	
Utilization (1)	89.2%		89.2%	
Average revenue per rig per day (2)	$ 129,577	$	$ 129,577	$
Average operating expense per rig per day (3)	$ 43,320	$	$ 43,320	$
Revenues	$ 4,276	$	$ 4,276	$
Operating expenses, excluding depreciation and amortization	$ 1,603	$	$ 1,603	$
Depreciation and amortization expense	$ 251	$	$ 251	$
General and administrative expenses, excluding depreciation and amortization	$ 472	$	$ 507	$
Operating income	$ 1,950	$	$ 1,915	$
Domestic Marine Services Segment:				
Number of liftboats (as of end of period)	47	39	47	39
Operating days	2,802	1,766	5,652	3,218
Available days	3,699	2,392	7,157	4,372
Utilization (1)	75.8%	73.8%	79.0%	73.6%
Average revenue per liftboat per day (2)	$ 10,765	$ 6,109	$ 9,865	$ 6,200
Average operating expense per liftboat per day (3)	$ 2,935	$ 2,444	$ 2,801	$ 2,385
Revenues	$ 30,163	$ 10,787	$ 55,760	$ 19,951
Operating expenses, excluding depreciation and amortization	$ 10,857	$ 5,847	$ 20,050	$ 10,427
Depreciation and amortization expense	$ 4,910	$ 1,534	$ 8,888	$ 2,701
General and administrative expenses, excluding depreciation and amortization	$ 417	$ 380	$ 1,162	$ 821
Operating income	$ 13,979	$ 3,026	$ 25,660	$ 6,002

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	Three Months Ended June 30, 2006		Three Months Ended June 30, 2005		Six Months Ended June 30, 2006		Six Months Ended June 30, 2005	
	(Dollars in thousands, except per day amounts)				(Dollars in thousands, except per day amounts)			
International Marine Services Segment:								
Number of liftboats (as of end of period)		4				4		
Operating days		355				712		
Available days		364				724		
Utilization (1)		98.0%				98.0%		
Average revenue per liftboat per day (2)	$	10,047	$		$	9,980	$	
Average operating expense per liftboat per day (3)	$	4,346	$		$	4,445	$	
Revenues	$	3,567	$		$	7,106	$	
Operating expenses, excluding depreciation and amortization	$	1,581	$		$	3,217	$	
Depreciation and amortization expense	$	274	$		$	553	$	
General and administrative expenses, excluding depreciation and amortization	$	593	$		$	1,354	$	
Operating income	$	1,119	$		$	1,982	$	
Total Company:								
Revenues	$	76,297	$	37,075	$	132,430	$	71,130
Operating expenses, excluding depreciation and amortization	$	26,260	$	17,942	$	48,196	$	33,763
Depreciation and amortization expense	$	7,551	$	2,860	$	13,485	$	5,322
General and administrative expenses, excluding depreciation and amortization	$	6,601	$	2,904	$	13,187	$	5,105
Operating income	$	35,885	$	13,369	$	57,562	$	26,940
Interest expense	$	2,163	$	2,534	$	4,249	$	4,837
Loss on early retirement of debt	$		$	2,786	$		$	2,786
Gain on disposal of asset	$		$		$	29,580	$	
Other income	$	1,520	$	101	$	1,823	$	235
Income before income taxes	$	35,242	$	8,150	$	84,716	$	19,552
Income tax provision	$	12,309	$		$	30,871	$	
Net income	$	22,933	$	8,150	$	53,845	$	19,552

(1) Utilization is defined as the total number of days our rigs or liftboats, as applicable, were under contract, known as operating days, in the period as a percentage of the total number of available days in the period. Days during which our rigs and liftboats were undergoing major refurbishments, upgrades or construction, which included *Rig 16, Rig 21, Rig 26* and *Rig 31*, or cold-stacked units, which included three of our liftboats, are not counted as available days. Days during which our liftboats are in the shipyard undergoing drydocking or inspection are considered available days for the purposes of calculating utilization.

(2) Average revenue per rig or liftboat per day is defined as revenue earned by our rigs or liftboats, as applicable, in the period divided by the total number of operating days for our rigs or liftboats, as applicable, in the period.

(3) Average operating expense per rig or liftboat per day is defined as operating expenses, excluding depreciation and amortization, incurred by our rigs or liftboats, as applicable, in the period divided by the total number of available days in the period. We use available days to calculate average operating expense per rig or liftboat per day rather than operating days, which are used to calculate average revenue per rig or liftboat per day, because we incur operating expenses on our rigs and liftboats even when they are not under contract and earning a dayrate. In addition, the operating expenses we incur on our rigs and liftboats per day when they are not under contract are typically lower than the per-day expenses we incur when they are under contract.

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We have not provided below a comparison of our International Contract Drilling Services and International Marine Services segments, because those segments were established subsequent to June 30, 2005.

For the Three Months Ended June 30, 2006 and 2005

Revenues

Consolidated. Total revenues for the three-month period ended June 30, 2006 (the Current Quarter) were $76.3 million compared with $37.1 million for the three-month period ended June 30, 2005 (the Comparable Quarter), an increase of $39.2 million, or 106%. This increase resulted primarily from higher average dayrates in our Domestic Marine Services segment and additional operating days in our Domestic and International Marine Services segment, primarily due to the acquisition of liftboats in June and November 2005. Total revenues included $1.3 million in reimbursements from our customers for expenses paid by us in the Current Quarter compared with $1.0 million in the Comparable Quarter.

Domestic Contract Drilling Services Segment. Revenues for our Domestic Contract Drilling Services segment were $38.3 million for the Current Quarter compared with $26.3 million for the Comparable Quarter, an increase of $12.0 million, or 46%. This increase resulted primarily from higher average dayrates for our fleet partially offset by reduced utilization on three of our rigs, two of which sustained damage during Hurricane Katrina in August 2005. Operating days decreased to 494 in the Current Quarter from 602 in the Comparable Quarter. *Rig 21* operated 68 days in the Current Quarter compared to 91 days in the Comparable Quarter. The rig was in the shipyard for repairs during the Current Quarter. *Rig* 25 did not operate in the Current Quarter and has been scrapped due to damage sustained in Hurricane Katrina, and operated 90 days in the Comparable Quarter. Average revenue per rig per day was $77,513 in the Current Quarter compared with $43,653 in the Comparable Quarter, with average utilization of 94.3% in the Current Quarter compared with 94.5% in the Comparable Quarter. Revenues for our Domestic Contract Drilling Services segment included $0.2 million in reimbursements from our customers for expenses paid by us in the Current Quarter compared with $0.5 million in the Comparable Quarter.

Domestic Marine Services Segment. Revenues for our Domestic Marine Services segment were $30.2 million for the Current Quarter compared with $10.8 million in the Comparable Quarter, an increase of $19.4 million, or 180%. This increase resulted primarily from additional operating days, higher average dayrates and higher average utilization. Operating days in the Current Quarter were 2,802 compared with 1,766 operating days in the Comparable Quarter, with the increase due primarily to acquisition activity. Average revenue per liftboat per day was $10,765 in the Current Quarter compared with $6,109 in the Comparable Quarter, with average utilization of 75.8% in the Current Quarter compared with 73.8% in the Comparable Quarter. The increase in average dayrates and average utilization was attributable primarily to increased activity in the aftermath of Hurricane Katrina and Hurricane Rita. Revenues for our Domestic Marine Services segment included $1.1 million in reimbursements from our customers for expenses paid by us in the Current Quarter compared with $0.5 million in the Comparable Quarter.

Operating Expenses

Consolidated. Total operating expenses, excluding depreciation and amortization, for the Current Quarter were $26.3 million compared with $17.9 million in the Comparable Quarter, an increase of $8.4 million, or 47%. This increase resulted primarily from the increase in rig and liftboat operating expenses described below.

Domestic Contract Drilling Services Segment. Operating expenses, excluding depreciation and amortization, for our Domestic Contract Drilling Services segment were $12.2 million in the Current Quarter compared with $12.1 million in the Comparable Quarter, an increase of $0.1 million, or 1%. Available days decreased to 524 in the Current Quarter from 637 in the Comparable Quarter. Average operating expenses per rig per day were $23,318 in the Current Quarter compared with $18,988 in the Comparable Quarter. The increase in operating expense per rig per day is due in part to the inclusion of operating expenses for *Rig 21* while the rig was undergoing repairs for damage sustained during Hurricane Katrina. *Rig 21* was in the shipyard for 22 days in the Current Quarter. During that time, the rig was not considered available and therefore no available days for the rig were included in the calculation of average operating expense per rig per day. On a per day basis, average operating expenses per rig increased $4,330, of which $1,236 was attributable to *Rig 21* while it was in the shipyard. The increase resulted primarily from an increase in labor expenses, which increased $2,685 per day, of which $705 was attributable to *Rig 21*, an increase in insurance costs, which increased $606 per day, of which $75 was attributable to *Rig 21*, and an increase in rig maintenance costs, which increased $1,736 per day, of which $353 was attributable to *Rig 21*.

Domestic Marine Services Segment. Operating expenses, excluding depreciation and amortization, for our Domestic Marine Services segment were $10.9 million for the Current Quarter compared with $5.8 million in the Comparable Quarter, an increase of $5.1 million, or 88%. The increase is due to liftboat acquisitions and additional operating days. Average operating expenses per liftboat per day were $2,935 in the Current Quarter compared with $2,444 in the Comparable Quarter. This increase resulted primarily from an increase in labor expenses, which increased $423 per day, an increase in insurance costs, which increased $82 per day, and an increase in liftboat maintenance costs, which increased $13 per day.

Depreciation and Amortization

Depreciation and amortization expense in the Current Quarter was $7.6 million compared with $2.9 million in the Comparable Quarter, an increase of $4.7 million, or 162%. This increase resulted primarily from $2.3 million in additional amortization of regulatory inspections and related drydockings and an additional $0.8 million in depreciation expense for our Domestic Contract Drilling Services segment, $1.1 million for our Domestic Marine Services segment, $0.3 million for our International Contract Drilling Services segment and $0.3 million for our International Marine Services segment. This increase in depreciation expense for these segments is related primarily to acquisition activity between the Comparable Quarter and the Current Quarter.

General and Administrative Expenses

General and administrative expenses, excluding depreciation and amortization, in the Current Quarter were $6.6 million compared with $2.9 million in the Comparable Quarter, an increase of $3.7 million, or 128%. This increase is due primarily to higher general and administrative expenses for our corporate offices in addition to increases in general and administrative expenses in our operating segments. General and administrative expenses for our corporate office increased from $0.8 million in the Comparable Quarter to $3.5 million in the Current Quarter, an increase of $2.7 million. This increase is due to increased headcount, additional professional fees related to increased regulatory requirements as a public company and stock-based compensation expense of $0.8 million. General and administrative expenses remained substantially the same in our Domestic Contract Drilling Services and Domestic Marine Services segments from the Comparable Quarter to the Current Quarter. General and administrative expense for our International Contract Drilling Services segment in the Current Quarter was $0.5 million, which represents expenses associated with our operations in Qatar that commenced in the first quarter of 2006. General and administrative expense for our International Marine Services segment in the Current Quarter was $0.6 million, which represent expenses associated with our operations in Nigeria that commenced in the fourth quarter of 2005.

Interest Expense

Interest expense in the Current Quarter was $2.1 million compared with $2.5 million in the Comparable Quarter, a decrease of $0.4 million, or 10%. This decrease resulted from a decrease in the average interest rate on our overall borrowings. The average interest rate decreased to 7.8% in the Current Quarter from 9.87% in the Comparable Quarter.

Other Income

Other income in the Current Quarter was $1.5 million compared with $0.1 million in the Comparable Quarter, an increase of $1.4 million. This increase is due primarily to higher cash balances resulting in increased interest income.

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For the Six Months Ended June 30, 2006 and 2005

Revenues

Consolidated. Total revenues for the six-month period ended June 30, 2006 (the Current Period) were $132.4 million compared with $71.1 million for the six-month period ended June 30, 2005 (the Comparable Period), an increase of $61.3 million, or 86%. This increase resulted primarily from higher average dayrates in our Domestic Marine Services segment and additional operating days in our Domestic and International Marine Services segment, primarily due to the acquisition of liftboats in June and November 2005. Total revenues included $2.5 million in reimbursements from our customers for expenses paid by us in the Current Period compared with $2.3 million in the Comparable Period.

Domestic Contract Drilling Services Segment. Revenues for our Domestic Contract Drilling Services segment were $65.3 million for the Current Period compared with $51.2 million for the Comparable Period, an increase of $14.1 million, or 28%. This increase resulted primarily from higher average dayrates for our fleet partially offset by reduced utilization on three of our rigs, two of which sustained damage during Hurricane Katrina in August 2005. Operating days decreased to 876 in the Current Period from 1,212 in the Comparable Period. Average revenue per rig per day was $74,530 in the Current Period compared with $42,234 in the Comparable Period, with average utilization of 89.9% in the Current Period compared with 96.9% in the Comparable Period. Revenues for our Domestic Contract Drilling Services segment included $0.6 million in reimbursements from our customers for expenses paid by us in the Current Period compared with $1.3 million in the Comparable Period.

Domestic Marine Services Segment. Revenues for our Domestic Marine Services segment were $55.8 million for the Current Period compared with $20.0 million in the Comparable Period, an increase of $35.8 million, or 179%. This increase resulted primarily from additional operating days, higher average dayrates and higher average utilization. Operating days in the Current Period were 5,652 compared with 3,218 operating days in the Comparable Period, with the increase due primarily to acquisition activity. Average revenue per liftboat per day was $9,865 in the Current Period compared with $6,200 in the Comparable Period, with average utilization of 79% in the Current Period compared with 73.6% in the Comparable Period. The increase in average dayrates and average utilization was attributable primarily to increased activity in the aftermath of Hurricane Katrina and Hurricane Rita. Revenues for our Domestic Marine Services segment included $1.9 million in reimbursements from our customers for expenses paid by us in the Current Period compared with $1.0 million in the Comparable Period.

Operating Expenses

Consolidated. Total operating expenses, excluding depreciation and amortization, for the Current Period were $48.2 million compared with $33.8 million in the Comparable Period, an increase of $14.4 million, or 43%. This increase resulted primarily from the increase in rig and liftboat operating expenses described below.

Domestic Contract Drilling Services Segment. Operating expenses, excluding depreciation and amortization, for our Domestic Contract Drilling Services segment were $23.3 million in the Current Period and the Comparable Period. Available days decreased to 974 in the Current Period from 1,251 in the Comparable Period. Average operating expenses per rig per day were $23,949 in the Current Period compared with $18,654 in the Comparable Period. The increase in operating expense per rig per day is due in part to the inclusion of operating expenses for *Rig 21* while the rig was undergoing repairs for damage sustained during Hurricane Katrina. The rig was in the shipyard for 112 days in the Current Period. On a per day basis, average operating expenses per rig increased $5,295, of which $1,197 was attributable to *Rig 21* while it was in the shipyard. The increase resulted primarily from an increase in labor expenses, which increased $3,573 per day, of which $716 was attributable to *Rig 21*, an increase in insurance costs, which increased $779 per day, of which $78 was attributable to *Rig 21*, and an increase in rig maintenance costs, which increased $1,263 per day, of which $278 was attributable to *Rig 21*.

Domestic Marine Services Segment. Operating expenses, excluding depreciation and amortization, for our Domestic Marine Services segment were $20.1 million for the Current Period compared with $10.4 million in the Comparable Period, an increase of $9.7 million, or 93%. The increase is due to liftboat acquisitions and additional

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operating days. Average operating expenses per liftboat per day were $2,801 in the Current Period compared with $2,385 in the Comparable Period. This increase resulted primarily from an increase in labor expenses, which increased $300 per day, an increase in insurance costs, which increased $50 per day, and an increase in liftboat maintenance costs, which increased $54 per day.

Depreciation and Amortization

Depreciation and amortization expense in the Current Period was $13.5 million compared with $5.3 million in the Comparable Period, an increase of $8.2 million, or 155%. This increase resulted primarily from $4.3 million in additional amortization of regulatory inspections and related drydockings and an additional $1.2 million in depreciation expense for our Domestic Contract Drilling Services segment, $1.9 million for our Domestic Marine Services segment, $0.3 million for our International Contract Drilling Services segment and $0.5 million for our International Marine Services segment. This increase in depreciation expense for these segments is related primarily to acquisition activity between the Comparable Period and the Current Period.

General and Administrative Expenses

General and administrative expenses, excluding depreciation and amortization, in the Current Period were $13.2 million compared with $5.1 million in the Comparable Period, an increase of $8.1 million, or 159%. This increase is due primarily to higher general and administrative expenses for our corporate offices in addition to increases in general and administrative expenses in our operating segments. General and administrative expenses for our corporate office increased from $1.4 million in the Comparable Period to $6.8 million in the Current Period, an increase of $5.4 million. This increase is due to increased headcount, additional professional fees related to increased regulatory requirements as a public company and stock-based compensation expense of $1.5 million. General and administrative expenses increased $0.5 million and $0.3 million in our Domestic Contract Drilling Services and Domestic Marine Services segments, respectively. General and administrative expense for our International Contract Drilling Services segment in the Current Period was $0.5 million, which represents expenses associated with our operations in Qatar that commenced in the first quarter of 2006. General and administrative expense for our International Marine Services segment in the Current Period was $1.4 million, which represent expenses associated with our operations in Nigeria that commenced in the fourth quarter of 2005.

Interest Expense

Interest expense in the Current Period was $4.2 million compared with $4.8 million in the Comparable Period, a decrease of $0.6 million, or 13%. This decrease resulted from a decrease in the average interest rate on our overall borrowings. The average interest rate decreased to 7.69% in the Current Period from 10.05% in the Comparable Period.

Gain on Disposal of Asset

The gain on disposal of asset in the Current Period consisted of $29.6 million related to the insurance settlement on the loss of *Rig 25* in Hurricane Katrina. There was no gain on disposal of asset in the Comparable Period.

Other Income

Other income in the Current Period was $1.8 million compared with $0.2 million in the Comparable Period, an increase of $1.6 million. This increase is due primarily to higher cash balances resulting in increased interest income.

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OUTLOOK

Contract Drilling Services

Oil prices increased through 2005 and the first six months of 2006. The spot price for West Texas intermediate crude oil as of June 30, 2006 was $73.93, compared with $42.12 as of January 1, 2005. Natural gas prices were higher than recent historical levels throughout 2005, but moderated somewhat in the first six months of 2006. In general, demand for our drilling rigs is correlated to our customers cash flows generated from commodity production and their expectations of future commodity prices. Demand in the U.S. Gulf of Mexico is particularly driven by natural gas prices.

Two significant events positively impacted market conditions for our drilling rigs in 2005 and the first half of 2006. First, Hurricanes Katrina and Rita significantly impacted the jackup drilling fleet in the U.S. Gulf of Mexico, putting a number of rigs out of service temporarily and, in some cases, permanently. Second, a number of our competitors moved jackup rigs out of the U.S. Gulf of Mexico in order to pursue opportunities in international markets. During the first six months of 2006, our competitors mobilized 10 jackups out of the U.S. Gulf of Mexico to international markets. Further, as of July 19, 2006, there were an additional 11 jackups that have announced plans to depart the U.S. Gulf of Mexico for international work. We anticipate that there will be additional need for jackups in several international markets, which could further reduce the supply of rigs in the U.S. Gulf of Mexico. The reduced supply of available rigs in the region, together with relatively high commodity prices, has resulted in strong demand for our domestic drilling units in 2005 and the first six months of 2006, and dayrates for our drilling rigs increased during this period. However, with current natural gas prices trending lower, it is possible that the level of drilling activity in the U.S. Gulf of Mexico could moderate, which may impact the utilization of jackups operating in shallow waters in this region. We believe that the further reduction in supply in the U.S. Gulf of Mexico due to rigs mobilizing to international locations could mitigate the impact of potential reduced drilling demand due to lower natural gas prices.

According to ODS-Petrodata, as of June 30, 2006, 60 jackup rigs have been ordered by industry participants, national oil companies and financial investors for delivery through 2009. We do not anticipate that these rigs will compete directly with our fleet, but may indirectly impact us through competition in other markets. Our ability to expand our international drilling fleet may be limited, however, by the increased supply of newbuild rigs. In addition, nine idle jackups in the U.S. Gulf of Mexico owned by our competitors have been cold stacked for all of 2005, and in some cases, several years earlier. We believe that these idle jackup rigs will require extensive capital expenditures to refurbish and bring back into service, but given the current tight market conditions, our competitors may opt to reactivate these rigs.

As a result of the extensive damage caused by Hurricanes Rita and Katrina, insurance underwriters sustained significant losses on claims and in 2006 significantly increased the cost of premiums for assets operating in the U.S. Gulf of Mexico and significantly reduced the amount of coverage offered for named windstorm damage. Companies renewing insurance policies covering assets in the U.S. Gulf of Mexico are likely to have an aggregate limit for what they can recover for assets damaged during named windstorms, which likely is much lower than the total insured value of those assets. As long as these limits exist, we do not anticipate that newly constructed jackups will be moved to the Gulf of Mexico during hurricane season.

The offshore drilling market remains highly competitive and cyclical, and it has been historically difficult to forecast future market conditions. While future commodity price expectations have historically been a key driver for demand for drilling rigs, other factors also affect our customers drilling programs, including the quality of drilling prospects, exploration success, relative production costs, availability of insurance and political and regulatory environments. Additionally, the offshore drilling business has historically been cyclical, marked by periods of low demand, excess rig supply and low dayrates, followed by periods of high demand, short rig supply and increasing dayrates. These cycles have been volatile and are subject to rapid change.

Marine Services

Demand for our liftboats has been strong since the second quarter of 2005. The steadily increasing dayrates that we experienced in 2005 continued in the first six months of 2006. Because of the significant damage to rigs, production platforms, pipelines and other equipment in the U.S. Gulf of Mexico caused by Hurricanes Katrina and Rita, demand for our liftboats for inspection and repair work has increased through 2005 and the first six months of 2006; we expect this demand to continue at least through the end of 2006 and likely into 2007. We also expect increased demand for our well intervention capabilities to assist our customers in restoring production from wells damaged by the hurricanes. Plug and abandonment and platform decommissioning work is also expected to increase.

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We anticipate that demand for liftboats will likely increase in other international markets. As a result of aging offshore infrastructure in a number of regions and the increase in dayrates for jackups and other equipment used to service this infrastructure, we anticipate that there will be longer term contract opportunities in international markets for liftboats currently working in the U.S. Gulf of Mexico and for newly constructed liftboats.

As of June 2006, we believe that there were 12 liftboats under construction or on order in the U.S. that may be used in the U.S. Gulf of Mexico, with anticipated delivery dates during 2006 and 2007. Once delivered, these liftboats may impact the demand and utilization of our domestic liftboat fleet.

Labor Markets

We require highly skilled personnel to operate our rigs and liftboats and to support our business. Competition for skilled personnel continues to intensify as new rigs and lifboats enter the market. We have also experienced a tightening in the labor market for rig personnel due to the increasing number of new offshore and onshore rigs in the U.S. markets. In response to these conditions, we have instituted retention programs, including increases in compensation. We expect these programs, along with additional programs that may become necessary to retain skilled personnel, to continue for the foreseeable future. If this trend continues, our labor costs will likewise continue to increase, although we do not believe at this time that our operations will be limited.

Many of the shipyards in the U.S. have experienced similar labor issues, including those that we use for the refurbishment and maintenance of our drillings rigs or that support the maintenance of our liftboat fleet. We have, in some instances, experienced delays in shipyard projects on our drilling rigs or lower utilization for our liftboats as some shipyards have experienced a limit on their production due to labor shortages.

International Operations

In accordance with our strategy of expansion into international markets with characteristics similar to those in the U.S. Gulf of Mexico, in the first quarter of 2006, we received commitments to contract two of our drilling rigs internationally. We established shorebase operations in Qatar and intend to establish shorebase operations in India to accommodate these contracts. We have established an international structure based in the Cayman Islands to facilitate this expansion. Certain of our international rigs are owned or operated, directly or indirectly, by one of our wholly owned Cayman Islands subsidiaries. Earnings from this subsidiary are reinvested to finance foreign activities.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Sources and uses of cash for the six-month periods ended June 30, 2006 and 2005 are as follows:

	Six Months Ended June 30, 2006	2005
	(dollars in millions)	
Net cash provided by operating activities		
Net income	$ 53.8	$ 19.6
Depreciation and amortization	13.5	5.3
Increase in accounts payable and other current liabilities	14.4	4.6
Deferred income tax provision	17.4	
Stock-based compensation	1.4	
Loss on early retirement of debt		2.8
Gain on disposal of asset	(29.6)	
Increase in accounts receivable, insurance claims receivable and other current assets	(27.9)	(6.2)
Total	$ 43.0	$ 26.1

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	Six Months Ended June 30, 2006	2005
	(dollars in millions)	
Net cash used in investing activities		
Acquisition of *Rig 25* and *Rig 30* in January 2005	$	$ (41.5)
Acquisition of 17 liftboats in June 2005		(20.0)
Acquisition of *Rig 16* in June 2005		(20.0)
Acquisition of *Rig 26* in February 2006	(20.1)	
Acquisition of six liftboats in June 2006	(52.0)	
Refurbishment and upgrade of *Rig 16*	(9.6)	
Refurbishment and upgrade of *Rig 31*	(10.7)	
Refurbishment and upgrade of *Rig 26*	(9.0)	
Other rig refurbishments	(11.4)	
Refurbishments of liftboats	(2.2)	
Drillpipe	(4.4)	
Deferred drydocking expenditures for liftboats	(6.6)	(2.2)
Insurance proceeds received	50.1	
Deposits		1.7
Other	0.5	(5.9)
Total	$ (75.4)	$ (87.9)
Net cash provided by financing activities		
Proceeds from borrowings	$	$ 185.0
Payment of debt	(0.7)	(101.0)
Proceeds from issuance of common stock	54.2	
Proceeds from exercise of stock options	0.2	
(Distributions to) contributions from members	(3.7)	4.3
Payment of debt issuance costs	(0.6)	(5.6)
Total	$ 49.4	$ 82.7

Liquidity and Financing Arrangements

Cash from operations, proceeds from our public offering of common stock in April 2006, insurance proceeds received for the loss of *Rig 25* and cash on hand represented our primary source of liquidity for the six-month period ended June 30, 2006. For the same period, our primary uses of cash were the acquisition of *Rig 26* for $20.1 million, the acquisition of six liftboats for $52.0 million, capital expenditures on our remaining fleet of $47.3 million and deferred drydocking expenditures of $6.6 million. Contributions from owners, borrowings from our creditors and our cash flow from operations represented our primary source of liquidity for the six-month period ended June 30, 2005. For the same period, our primary uses of cash were the acquisitions of *Rig 25, Rig 30, Rig 16* and 17 liftboats.

We believe that our current cash on hand and our cash flow from operations through December 31, 2006, together with availability under our revolving credit facility and insurance recoveries, will be adequate during such period to repay our debts as they become due, to make normal recurring capital additions and improvements, to meet working capital requirements, to refurbish and upgrade *Rig 26* and *Rig 31* and otherwise to operate our business. Our ability to make payments on our indebtedness and to fund planned capital expenditures in the future will depend on our ability to generate cash, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our future cash flows may be insufficient to meet all of our debt obligations and commitments, and any insufficiency could negatively impact our business. To the extent we are unable to repay our indebtedness as it becomes due or at maturity with cash on hand or from other sources, we will need to refinance our debt, sell assets or repay the debt with the proceeds from further equity offerings. Additional indebtedness or equity financing may not be available to us in the future for the refinancing or repayment of existing indebtedness, and we can provide no assurance as to the timing of any asset sales or the proceeds that could be realized by us from any such asset sale.

Cash

Cash balances as of June 30, 2006 totaled $64.6 million. This represented an increase of $17.0 million from the cash balances of $47.6 million as of December 31, 2005. The increase was due primarily to net proceeds from our

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public offering of common stock of $54.2 million, insurance proceeds received for the loss of *Rig 25* of $48.8 million and cash flow from operations of $43.0 million, partially offset by the acquisition of *Rig 26* for $20.1 million, the Laborde acquisition for $49.3 million, capital expenditures on our remaining fleet of $47.3 million, deferred drydocking expenditures of $6.6 million and a payment of $3.7 million to the former members of our company for a distribution for taxes that was accrued at December 31, 2005.

Debt

Our current debt structure is used to fund our business operations, and our revolving credit facility is a source of liquidity. As of June 30, 2006, we had outstanding long-term debt of $94.0 million, including current maturities of $1.4 million.

In June 2005, we entered into a senior secured credit agreement with a syndicate of financial institutions. This agreement, as amended, provides for a $140.0 million term loan and a $75.0 million revolving credit facility. We may seek commitments to increase the amount available under the credit agreement by an additional $25.0 million if our leverage ratio, after giving effect to the incurrence of the additional $25.0 million of borrowings, is no greater than 2.5 to 1. Amounts repaid under the term loan cannot be reborrowed except pursuant to such an increase in availability.

The revolving credit facility provides for swing line loans of up to $5.0 million and for the issuance of up to $5.0 million of letters of credit. The revolving loans bear interest at a rate equal to, at our option, either (1) the highest of (a) Comerica Bank s base rate, (b) the three-month certificate of deposit rate plus 0.5% and (c) the Federal funds effective rate plus 0.5%, in each case plus 1.25%, or (2) LIBOR plus 2.25%. We may prepay the revolving loans at any time without premium or penalty. The revolving loans mature in June 2010. We are required to pay a commitment fee of 0.375% on the average daily amount of the unused commitment amount of the revolving credit facility and a letter of credit fee of 2.25%, plus a fronting fee of 0.125%, with respect to the undrawn amount of each issued letter of credit. As of June 30, 2006, no amounts were outstanding and no letters of credit had been issued under the revolving credit facility.

The term loan bears interest at a rate equal to, at our option, either (1) the highest of (a) Comerica Bank s base rate, (b) the three-month certificate of deposit rate plus 0.5% and (c) the Federal funds effective rate plus 0.5%, in each case plus 2.25%, or (2) LIBOR plus 3.25%. As of June 30, 2006, $94.0 million of the principal amount of the term loan was outstanding, and the interest rate was 8.24%. In accordance with the credit agreement, in July 2005, we entered into hedge transactions with the purpose and effect of fixing the interest rate on $70.0 million of the outstanding principal amount of the term loan at 7.54% for three years. In addition, we entered into hedge transactions with the purpose and effect of capping the interest rate on an additional $20.0 million of such principal amount at 8.25% for three years. Principal payments of $350,000 are due quarterly, and the outstanding principal balance of the term loan is payable in full in June 2010. We may prepay the term loan at any time without premium or penalty, except that prepayments made before December 31, 2006 with proceeds from debt issuances or in connection with a repricing of the term loan will be made at 101% of the principal repaid.

We are required to prepay the term loan with:

- the proceeds from sales of certain assets;
- the proceeds from casualties or condemnations of assets to the extent that the net cash proceeds from any such casualty or condemnation exceed $1.0 million and are not reinvested within one year;
- the net proceeds of certain debt for borrowed money;
- 25% of the net proceeds of any public or private offering of our equity securities, provided that holders of the term loan may reject the mandatory prepayment; and
- 50% of excess cash flow if either our leverage ratio is above 3.0 to 1.0 or the outstanding principal balance of the term loan is greater than $110.0 million.

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Our obligations under the credit agreement are secured by our liftboats, all of our domestic rigs and substantially all of our other personal property, including all the equity of our domestic subsidiaries and 65% of the equity of certain of our foreign subsidiaries. All of our domestic material subsidiaries guarantee our obligations under the agreement and have granted similar liens on substantially all of their assets. Our foreign subsidiaries are not guarantors, and the assets owned by our foreign subsidiaries are not held as collateral for the loans.

The credit agreement contains financial covenants relating to leverage, fixed charge coverage and collateral coverage. Other covenants contained in the agreement restrict, among other things, repurchases of equity interests, mergers, asset dispositions, guaranties, debt, liens, acquisitions, dividends, distributions, investments, affiliate transactions, prepayments of other debt and capital expenditures. The credit agreement permits us to make advances to and investments in our foreign subsidiaries provided we meet applicable financial covenants. We are currently in compliance in all material respects with our covenants under the credit agreement. The credit agreement contains customary events of default.

Capital Expenditures

We expect to spend approximately $73.2 million in 2006 on the refurbishment and upgrade of our rigs and liftboats. Rigs or liftboats that have been idle for long periods of time will often require a substantial amount of work to restore the rig or liftboat into operating condition. This often entails replacing or rebuilding much of the operating equipment, and is often costly. We describe this process as a refurbishment, and we capitalize the costs of restoring a unit to operating condition.

We differentiate a refurbishment from an upgrade, in which we materially increase the operating capabilities of a rig or liftboat. This can be accomplished by a number of means, including adding new or higher specification equipment to the unit, increasing the water depth capabilities or increasing the capacity of the living quarters, or a combination of each. As part of our acquisitions of *Rig 16*, *Rig 31* and *Rig 26*, we had to undertake both a major refurbishment project and upgrade of each rig to make them competitive with rigs that are already in operation.

Over the remainder of 2006, we will continue to incur expenditures to upgrade and refurbish our rigs and our liftboats. In addition, we are required to inspect and drydock our liftboats on a periodic basis to meet U.S. Coast Guard requirements. The amount of expenditures is impacted by a number of factors, including among others our ongoing maintenance expenditures, adverse weather, changes in regulatory requirements and operating conditions. In addition, from time to time we agree to perform modifications to our rigs and liftboats as part of a contract with a customer. When market conditions allow, we attempt to recover these costs as part of the contract cash flow.

The table below sets forth information with respect to certain of our capital expenditure projects for 2005 and the first six months of 2006, estimated amounts for the remainder of 2006 and total estimated amounts for the project.

	Expenditures				
(in millions)	2005 Expenditures	Six Months Ended June 30, 2006	Estimated Remaining 2006 Expenditures	Total Expenditures or Estimated Expenditures	Completion or Expected Completion
Rig 16 refurbishment and upgrade	$ 5.7	$ 9.6	$	$ 15.3	June 2006
Rig 31 refurbishment and upgrade	2.9	10.7	6.5	20.1	Third Quarter 2006
Rig 26 refurbishment and upgrade		9.0	18.7	37.0	First Quarter 2007
Rig 21 additional upgrades (not covered by insurance claim for damage)	0.3	4.2		4.5	Second Quarter 2006
Corina and *Pike* refurbishments (inactive liftboats acquired in June 2005)		1.4	0.6	2.0	Third Quarter 2007
Remora refurbishment		0.8	0.2	1.0	Third Quarter 2006
Commissioning of *Whale Shark*	0.5			0.5	First Quarter 2006
Drydockings of liftboats	7.4	6.6	7.1	Ongoing	Ongoing

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The timing and amounts we actually spend in connection with our plans to upgrade and refurbish other selected rigs and liftboats are subject to our discretion and will depend on our view of market conditions and our cash flows. From time to time, we may review possible acquisitions of rigs, liftboats or businesses, joint ventures, mergers or other business combinations, and we may have outstanding from time to time bids to acquire certain assets from other companies. We may not, however, be successful in our acquisition efforts. If we do complete any such acquisitions, we may make significant capital commitments for such purposes. Any such transactions could involve the payment by us of a substantial amount of cash. We would likely fund the cash portion of such transactions, if any, through cash balances on hand, the incurrence of additional debt, or sales of assets, equity interests or other securities or a combination thereof. If we acquire additional assets, we would expect that the ongoing capital expenditures for our company as a whole would increase in order to maintain our equipment in a competitive condition.

Our ability to fund capital expenditures would be adversely affected if conditions deteriorate in our business, we experience poor results in our operations or we fail to meet covenants under our senior secured credit facility.

Contractual Obligations

For additional information about our contractual obligations as of December 31, 2005, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity and Financing Arrangements Contractual Obligations in Item 7 of our annual report on Form 10-K for the year ended December 31, 2005. There have been no material changes to such disclosure regarding our contractual obligations made in the annual report.

Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are evaluating the requirements of FIN 48. We intend to adopt FIN 48 in the first quarter of 2007 and do not believe it will have a material impact on our consolidated balance sheet, statement of operations or statement of cash flow.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, included in this quarterly report that address activities, events or developments that we expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These include such matters as:

- our ability to enter into new contracts for our rigs and liftboats and future utilization rates for the units;
- the correlation between demand for our rigs and our liftboats and our earnings and customers expectations of energy prices;
- future capital expenditures and refurbishment, repair and upgrade costs;
- amounts expected to be paid by insurance proceeds for *Rig 21* and the salvage of *Rig 25*;

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- expected completion times for our refurbishment and upgrade projects;
- sufficiency of funds for required capital expenditures, working capital and debt service;
- our plans regarding increased international operations;
- expected useful lives of our rigs and liftboats;
- liabilities under laws and regulations protecting the environment;
- expected outcomes of litigation, claims and disputes and their expected effects on our financial condition and results of operations; and
- expectations regarding improvements in offshore drilling activity and dayrates, continuation of current market conditions, demand for our rigs and liftboats, operating revenues, operating and maintenance expense, insurance expense and deductibles, interest expense, debt levels and other matters with regard to outlook.

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Although it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties described under Risk Factors in Item 1A of our annual report on Form 10-K for the year ended December 31, 2005 and Item 1A of Part II of this quarterly report and the following:

- oil and natural gas prices and industry expectations about future prices;
- demand for offshore jackup rigs and liftboats;
- our ability to enter into and the terms of future contracts;
- the worldwide military and political environment, uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East and other oil and natural gas producing regions or further acts of terrorism in the United States, or elsewhere;
- the impact of governmental laws and regulations;
- the adequacy of sources of liquidity;

uncertainties relating to the level of activity in offshore oil and natural gas exploration, development and production;

competition and market conditions in the contract drilling and liftboat industries;

the availability of skilled personnel;

labor relations and work stoppages;

operating hazards such as severe weather and seas, fires, cratering, blowouts, war, terrorism and cancellation or unavailability of insurance coverage;

the effect of litigation and contingencies; and

our inability to achieve our plans or carry out our strategy.

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Many of these factors are beyond our ability to control or predict. Any of these factors, or a combination of these factors, could materially affect our future financial condition or results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. In addition, each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risks, see Quantitative and Qualitative Disclosures about Market Risk in Item 7A of our annual report on Form 10-K for the year ended December 31, 2005. There have been no material changes to the disclosure regarding our exposure to certain market risks made in the annual report. For additional information regarding our long-term debt, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity and Financing Arrangements Debt in Item 2 of Part I of this quarterly report.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and President and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this quarterly report. Based upon that evaluation, our Chief Executive Officer and President and our Chief Financial Officer concluded that, as of June 30, 2006, our disclosure controls and procedures were effective, in all material respects, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the SEC s rules and forms, for information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

Except as disclosed in Item 1A of Part II of our quarterly report on Form 10-Q for the quarterly period ended March 31, 2006, there have been no material changes from the risk factors previously disclosed in Item 1A of our annual report on Form 10-K for the year ended December 31, 2005.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of stockholders was held in Houston, Texas on April 26, 2006 for the purpose of voting on the proposals described below. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management s solicitation.

Stockholders elected two directors to the class of directors whose term will expire at the 2009 annual meeting of stockholders by the following votes:

Name	For	Withheld
Randall D. Stilley	27,275,132	239,844
Steven A. Webster	25,068,802	2,446,174

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The terms of office of directors Thomas R. Bates, Jr., Thomas J. Madonna, F. Gardner Parker, V. Frank Pottow and John T. Reynolds continued beyond the meeting date.

Stockholders approved an amendment to our 2004 Long-Term Incentive Plan increasing the number of shares of common stock available for issuance under the plan by 1,000,000 shares by the following vote:

For	23,718,495
Against	1,559,322
Abstain	7,064
Broker Non-Vote	2,230,095

Stockholders ratified the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2006 by the following vote:

For	27,494,765
Against	15,196
Abstain	5,014
Broker Non-Vote	0

ITEM 6. EXHIBITS

10.1*	Asset Purchase Agreement, dated April 3, 2006, by and between Hercules Liftboat Company, LLC and Laborde Marine Lifts, Inc. (incorporated by reference to Exhibit 10.1 to Hercules Current Report on Form 8-K dated April 3, 2006).
10.2*	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Hercules Current Report on Form 8-K dated April 7, 2006).
10.3*	Employment Agreement dated effective as of May 4, 2006 by and between Hercules Offshore, Inc. and Randal R. Reed (incorporated by reference to Exhibit 10.1 to Hercules Current Report on Form 8-K dated May 4, 2006).
10.4*	Third Amendment, dated as of June 12, 2006, to the Credit Agreement dated as of June 29, 2005 among the Company, as Borrower, Comerica Bank, as Administrative Agent, Citicorp North America, Inc., as Syndication Agent, Credit Suisse, Cayman Islands Branch, as Documentation Agent, and the Lenders party thereto (incorporated by reference to Exhibit 10.1 to Hercules Current Report on Form 8-K dated June 12, 2006).
31.1	Certification of Chief Executive Officer of Hercules pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of Hercules pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer of Hercules pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference as indicated.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERCULES OFFSHORE, INC.

By: */s/ Steven A. Manz*
Steven A. Manz
Chief Financial Officer

Date: August 4, 2006